CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Year Ended December 31, 2018

Extendicare Inc.
Dated: February 28, 2019

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Extendicare Inc. ("Extendicare" or the "Company") and other financial information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management's best estimates and judgements, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position, results of operations and cash flows of Extendicare within reasonable limits of materiality. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are properly maintained to provide accurate and reliable consolidated financial statements.

The board of directors of Extendicare (the "Board of Directors") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors carries out this responsibility principally through its independent Audit Committee comprised of unrelated and outside directors. The Audit Committee meets regularly during the year to review significant accounting and auditing matters with management and the independent auditors and to review and approve the interim and annual consolidated financial statements of Extendicare.

The consolidated financial statements have been audited by KPMG LLP, which has full and unrestricted access to the Audit Committee. KPMG's report on the consolidated financial statements follows.

/s/ Michael Guerriere

MICHAEL GUERRIERE
President and Chief Executive Officer

/s/ Elaine E. Everson

ELAINE E. EVERSON
Vice President and
Chief Financial Officer

February 28, 2019

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Independent Auditors' Report

To the Shareholders of Extendicare Inc.

Opinion

We have audited the consolidated financial statements of Extendicare Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of profit or loss and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Paola Cipolla

Vaughan, Canada

February 28, 2019

Extendicare Inc.

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)	*notes*	**2018**	**2017**
Assets			
Current assets			
Cash and short-term investments		**65,893**	128,156
Restricted cash		**2,290**	2,300
Accounts receivable	*7*	**50,570**	42,491
Income taxes recoverable		**17,316**	7,194
Other assets	*10*	**21,465**	20,634
Total current assets		**157,534**	200,775
Non-current assets			
Property and equipment	*8*	**514,849**	479,968
Goodwill and other intangible assets	*9*	**95,200**	95,901
Other assets	*10*	**118,996**	143,746
Deferred tax assets	*23*	**9,745**	13,891
Total non-current assets		**738,790**	733,506
Total assets		**896,324**	934,281
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		**133,654**	123,420
Income taxes payable		**1,073**	3,500
Long-term debt	*12*	**74,626**	59,664
Provisions	*11*	**17,621**	29,937
Total current liabilities		**226,974**	216,521
Non-current liabilities			
Long-term debt	*12*	**454,344**	476,404
Provisions	*11*	**42,595**	63,062
Other long-term liabilities	*13*	**35,077**	35,022
Deferred tax liabilities	*23*	**11,343**	14,316
Total non-current liabilities		**543,359**	588,804
Total liabilities		**770,333**	805,325
Share capital	*15*	**492,064**	490,881
Equity portion of convertible debentures	*12*	**7,085**	5,573
Contributed surplus	*14*	**2,706**	2,437
Accumulated deficit		**(368,147)**	(365,084)
Accumulated other comprehensive loss		**(7,717)**	(4,851)
Shareholders' equity		**125,991**	128,956
Total liabilities and equity		**896,324**	934,281

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 24).

Approved by the Board

/s/ Alan D. Torrie

Alan D. Torrie

Chairman

/s/ Michael Guerriere

Michael Guerriere

President and Chief Executive Officer

Extendicare Inc.

Consolidated Statements of Earnings

Years ended December 31

(in thousands of Canadian dollars except for per share amounts)	*notes*	**2018**	**2017**
CONTINUING OPERATIONS			
Revenue			
Long-term care		**632,533**	616,887
Retirement living		**33,412**	20,673
Home health care		**431,343**	435,718
Management, consulting and other		**22,719**	24,053
Total revenue	*17, 29*	**1,120,007**	1,097,331
Operating expenses		**986,023**	961,509
Administrative costs		**33,004**	31,467
Lease costs		**6,742**	6,758
Total expenses	*18*	**1,025,769**	999,734
Earnings before depreciation, amortization, and other expense		**94,238**	97,597
Depreciation and amortization		**35,270**	31,379
Other expense	*19*	**20,195**	–
Earnings before net finance costs and income taxes		**38,773**	66,218
Interest expense		**27,584**	28,082
Accretion		**2,878**	2,812
Gains on foreign exchange and investments	*20*	**(1,203)**	(864)
Interest revenue		**(3,761)**	(3,902)
Fair value adjustments	*20*	**956**	(2,474)
Net finance costs		**26,454**	23,654
Earnings before income taxes		**12,319**	42,564
Income tax expense			
Current		**8,129**	10,149
Deferred		**(3,894)**	703
Total income tax expense	*23*	**4,235**	10,852
Earnings from continuing operations		**8,084**	31,712
DISCONTINUED OPERATIONS			
Earnings (loss) from discontinued operations, net of income taxes	*22*	**23,654**	(29,580)
Net earnings		**31,738**	2,132
Basic and Diluted Earnings per Share			
Earnings from continuing operations	*21*	**0.09**	0.36
Net earnings	*21*	**0.36**	0.02

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31

(in thousands of Canadian dollars)	***notes***	**2018**	**2017**
Net earnings		**31,738**	2,132
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses, net of taxes	*23, 25*	**(373)**	(311)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized gain on available-for-sale securities, net of tax		**–**	4,955
Reclassification of realized gains on available-for-sale securities to earnings, net of tax		**–**	(7,012)
Net change in foreign currency translation adjustment		**1,841**	(3,097)
Total items that are or may be reclassified subsequently to profit or loss	*16*	**1,841**	(5,154)
Other comprehensive income (loss), net of tax	*23*	**1,468**	(5,465)
Total comprehensive income (loss)		**33,206**	(3,333)

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Changes in Equity

Years ended December 31

(in thousands of Canadian dollars)		**2018**		**2017**
	Number of Shares	**Amount**	***Number of Shares***	**Amount**
Share Capital *(note 15)*				
Balance at January 1	***88,523,290***	**490,881**	*88,684,485*	489,656
DRIP	***650,361***	**4,928**	*535,025*	5,081
Purchase of shares for cancellation	***(703,585)***	**(3,903)**	*(696,220)*	(3,856)
Share-based compensation *(note 14)*	***19,918***	**158**	*–*	–
Balance at end of period	***88,489,984***	**492,064**	*88,523,290*	490,881
Equity Portion of Convertible Debentures				
Balance at January 1		**5,573**		5,573
Redemption of convertible debentures *(note 12)*		**(5,573)**		–
Issuance of convertible debentures *(note 12)*		**7,085**		–
Balance at end of year		**7,085**		5,573
Contributed Surplus				
Balance at January 1		**2,437**		941
Share-based compensation		**269**		1,496
Balance at end of year		**2,706**		2,437
Accumulated Deficit				
Balance at January 1, previously reported		**(365,084)**		(322,025)
Adoption of new standard on financial instruments *(note 4)*		**4,334**		–
Balance at January 1		**(360,750)**		(322,025)
Net earnings		**31,738**		2,132
Dividends declared		**(42,351)**		(42,583)
Purchase of shares for cancellation in excess of book value *(note 15)*		**(2,357)**		(2,608)
Equity portion of redeemed convertible debentures *(note 12)*		**5,573**		–
Balance at end of year		**(368,147)**		(365,084)
Accumulated Other Comprehensive Income (Loss)				
Foreign currency translation on investments and accrual for self-insured liabilities				
Balance at January 1		**678**		3,775
Change in the year		**1,841**		(3,097)
Balance at end of year		**2,519**		678
Net change in fair value of available-for-sale financial assets, net of tax				
Balance at January 1, previously reported		**4,334**		6,391
Adoption of new standard on financial instruments *(note 4)*		**(4,334)**		–
Balance at January 1		**–**		6,391
Unrealized change in the year		**–**		4,955
Net change reclassified to profit or loss		**–**		(7,012)
Balance at end of period		**–**		4,334
Defined benefit plan actuarial losses, net of tax				
Balance at January 1		**(9,863)**		(9,552)
Change in the year		**(373)**		(311)
Balance at end of year		**(10,236)**		(9,863)
Accumulated other comprehensive loss		**(7,717)**		(4,851)
Shareholders' equity		**125,991**		128,956

See accompanying notes to consolidated financial statements.

Extendicare Inc.

Consolidated Statements of Cash Flows

Years ended December 31

(in thousands of Canadian dollars)	**2018**	**2017**
Operating Activities		
Net earnings	**31,738**	2,132
Adjustments for:		
Depreciation and amortization	**35,270**	31,379
Share-based compensation	**430**	1,496
Deferred taxes	**1,936**	(5,063)
Current taxes	**(3,600)**	8,919
Net finance costs	**26,701**	26,992
Other expense	**2,440**	36,816
Gain on foreign exchange, investments and fair value adjustments	**(247)**	(3,338)
	94,668	99,333
Net change in operating assets and liabilities		
Accounts receivable	**(8,172)**	9,569
Other assets	**(536)**	4,283
Accounts payable and accrued liabilities	**2,210**	(6,144)
	88,170	107,041
Payments for self-insured liabilities	**(15,237)**	(24,160)
Interest paid	**(28,383)**	(29,560)
Interest received	**3,785**	3,932
Income taxes paid	**(8,862)**	(10,093)
Net cash from operating activities	**39,473**	47,160
Investing Activities		
Purchase of property, equipment and other intangible assets	**(50,648)**	(41,137)
Acquisitions *(note 6)*	**(33,767)**	–
Decrease in investments held for self-insured liabilities	**24,163**	41,142
Decrease in other assets	**5,200**	5,591
Net cash from (used in) investing activities	**(55,052)**	5,596
Financing Activities		
Issue of long-term debt	**159,998**	43,654
Repayment of long-term debt	**(158,858)**	(22,029)
Decrease (increase) in restricted cash	**10**	(73)
Purchase of securities for cancellation	**(6,258)**	(6,455)
Dividends paid	**(37,424)**	(37,507)
Financing costs	**(5,886)**	(577)
Other	**(345)**	(625)
Net cash used in financing activities	**(48,763)**	(23,612)
Increase (decrease) in cash and short-term investments	**(64,342)**	29,144
Cash and short-term investments at beginning of year	**128,156**	101,582
Foreign exchange gain (loss) on cash held in foreign currency	**2,079**	(2,570)
Cash and short-term investments at end of year	**65,893**	128,156

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2018 AND 2017

(Tabular amounts in thousands of Canadian dollars, unless otherwise noted)

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1. GENERAL INFORMATION AND NATURE OF THE BUSINESS

The common shares (the “Common Shares”) of Extendicare Inc. (“Extendicare” or the “Company”) are listed on the Toronto Stock Exchange (TSX) under the symbol “EXE”. Extendicare and its predecessors have been operating since 1968, providing care and services to seniors throughout Canada. Following the sale of its U.S. business in 2015 and the repositioning of the Company as a pure-play Canadian services provider to the expanding senior care sector, management has successfully deployed the sale proceeds to expand and grow the Company’s operations across the continuum of seniors’ care.

References to “Extendicare”, the “Company”, “we”, “us” and “our” or similar terms refer to Extendicare Inc., either alone, or together with its subsidiaries. The registered office of Extendicare is located at 3000 Steeles Avenue East, Suite 700, Markham, Ontario, Canada, L3R 9W2.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were approved by the board of directors of Extendicare Inc. (the “Board”) on February 28, 2019.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets and liabilities classified or designated as fair value through profit or loss (FVTPL) or designated as available for sale (AFS) that have been measured at fair value in 2017. Refer to *note 3* for the classification of financial assets and liabilities.

Extendicare’s consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand, unless otherwise noted.

c) Use of Estimates and Judgement

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more subjective of such estimates are:

- valuation of purchase price allocation for acquisition (*note 6*);
- valuation of indemnification provisions (*note 11*);
- valuation of self-insured liabilities (*note 11*);
- valuation of equity portion of convertible debentures (*note 12*);
- valuation of financial assets and liabilities (*note 26(b)*);
- valuation of share-based compensation (*note 14*);
- determination of the recoverable amount of cash generating units (CGUs) subject to an impairment test (*note 19*); and
- accounting for tax uncertainties and the tax rates used for valuation of deferred taxes (*note 23*).

In addition, the assessment of contingencies (*note 24*) is subject to judgement. The recorded amounts for such items are based on management’s best available information and are subject to assumptions and judgement, which may change as time progresses; accordingly, actual results could differ from estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those detailed in note 4.

a) Basis of Consolidation

The consolidated financial statements include the accounts of Extendicare and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated. The financial statements of Extendicare's subsidiaries are included within the Company's consolidated financial statements from the date that control commences until the date that control ceases, and are prepared for the same reporting period as Extendicare, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of businesses. Consideration transferred on the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition and transaction costs are expensed as incurred. Identified assets acquired and liabilities assumed are measured at their fair value on the acquisition date. In determining the fair value of identifiable intangible assets acquired, values are assigned to in-place leases as described in *note 3(d)*. The excess of fair value of consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill, with any gain on a bargain purchase being recognized in net earnings on the acquisition date.

b) Foreign Currency

The assets and liabilities of foreign operations are translated at exchange rates at the reporting date. The income and expenses of foreign operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income (AOCI) in shareholders' equity. When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation differences is transferred to net earnings as part of the profit or loss on disposal. Foreign exchange gains and losses related to intercompany loans that are, in substance, part of the net investment in a foreign operation are included in AOCI. Foreign exchange gains and losses on intercompany loans with planned or foreseeable settlement are included in net finance costs within net earnings.

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in net earnings, except for differences arising on the retranslation of available-for-sale equity instruments, which were recognized in other comprehensive income (OCI) prior to 2018. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in net finance costs within net earnings.

c) Cash and Short-term Investments

Cash and short-term investments include unrestricted cash and short-term investments less bank overdraft and outstanding cheques. Short-term investments, comprised of money market instruments, have a maturity of 90 days or less from their date of purchase.

d) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. Property and equipment acquired as a result of a business combination are valued as outlined in *note 3(a)*. Centres that are constructed or under construction include all incurred expenditures for the development and other direct costs related to the acquisition of land, development and construction of the centres, including borrowing costs of assets meeting certain criteria that are capitalized until the centre is completed for its intended use.

Refer to *note 3(h)* for the accounting policy for the determination of impairment losses.

Property and equipment are classified into components when parts of an item have different useful lives. The cost of replacing a component of an item is recognized in the carrying amount of the item if there is a future economic benefit and its cost can be measured reliably. Any undepreciated carrying value of the assets being replaced will be derecognized and

charged to net earnings upon replacement. The costs of the day-to-day maintenance of property and equipment are recognized in net earnings as incurred.

Depreciation and amortization are computed on a straight-line basis based on the useful lives of each component of property and equipment. Depreciation of long-term care (LTC) centres or retirement communities under construction commences in the month after the centre is available for its intended use based upon the useful life of the asset, as outlined in the following table. The depreciation methods, useful lives and residual values are reviewed at least annually, and adjusted if appropriate.

The Company acquires in-place leases in connection with the acquisitions of operating retirement communities. These assets are stated at the amounts determined upon acquisition and are amortized on a straight-line basis, based upon a review of the residents' average length of stay. In-place leases are a component of building, and are generally depreciated over a three-year period.

Land improvements	10 to 25 years
Buildings:	
Building components:	
Structure and sprinklers systems	50 years
Roof, windows and elevators	25 years
HVAC and building systems	15 to 25 years
Flooring and interior upgrades	5 to 15 years
In-place leases	1 to 3 years
Building improvements and extensions	5 to 30 years
Furniture and equipment:	
Furniture and equipment	5 to 15 years
Computer equipment	3 to 5 years
Leasehold improvements	Term of the lease and renewal that is reasonably certain to be exercised

e) Government Grants

Government grants are recognized depending on the purpose and form of the payment from the government.

Forgivable loans issued by the government are accounted for as government grants if there is reasonable assurance the Company will meet the terms for forgiveness of the loan. Forgivable loans granted by a provincial or health authority body for the construction of a senior care centre, where the grants are received throughout the duration of the construction project, are netted with the cost of property and equipment to which they relate when such payments are received.

Capital funding payments for the development of a senior care centre that are received from a provincial body subsequent to construction over extended periods of time are present valued and are recorded as notes, mortgages and amounts receivable included in other assets, with an offset to the cost of property and equipment upon inception; as these grants are received over time, the accretion of the receivable is recognized in interest revenue as part of net finance costs within net earnings.

f) Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the lessee, or otherwise meet the criteria for capitalizing a lease under IFRS, are accounted for as a finance lease; all other leases are classified as operating leases.

WHEN THE COMPANY IS THE LESSEE

Leased assets that are classified as finance leases are presented according to their nature and are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability due to the lessor is presented as a finance lease obligation as part of the long-term debt. Property and equipment recognized as finance leases are depreciated on a consistent basis with owned property and equipment.

Rental payments under operating leases are expensed as incurred. Operating leases with defined scheduled rent increases are recognized on a straight-line basis over the lease term. Lease incentives received as an inducement to enter into operating leases are initially recognized as a liability, and are recorded as a reduction of rental expense on a straight-line basis over the term of the lease.

WHEN THE COMPANY IS THE LESSOR

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Company's net investment in the leases. The interest element of the lease payment is recognized over the term of the lease based on the effective interest method and is included in financing costs. The Company is not currently the lessor under any finance leases.

g) Goodwill and Other Intangible Assets

GOODWILL

Goodwill represents the excess amount of consideration given over the fair value of the underlying net assets acquired in a business combination, and is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired, see *note 3(h)*.

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired are recorded at fair value determined upon acquisition, and if the assets have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (refer to *note 3(h))*.

Intangible assets with finite lives are amortized based on cost. Subsequent expenditures are capitalized only if a future benefit exists. All other expenditures, including expenditures on internally generated goodwill, are recognized in net earnings as incurred.

Intangible assets with indefinite useful lives are measured at cost without amortization, and are subject to impairment tests (refer to *note 3(h))*.

Customer relationships acquired in connection with the purchase of a Canadian home health care business represent the intangible asset underlying the various contracts in the business. These assets are being amortized over the estimated useful lives over 15 years.

Non-compete agreements acquired through acquisitions are amortized on a straight-line basis over the period until the agreement expires.

Computer software is amortized over five to seven years and internally developed software over a three-year period.

Amortization methods and useful lives are reviewed at least annually, and are adjusted when appropriate.

h) Impairment

Impairment of financial and non-financial assets is assessed on a regular basis. All impairment losses are charged to other expense as part of earnings before net finance costs and income taxes.

NON-FINANCIAL ASSETS

Non-financial assets consist of property and equipment, intangible assets with finite lives, intangible assets with indefinite lives and goodwill.

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. For goodwill, and intangible assets that have indefinite useful lives or those that are not yet available for use, the recoverable amount is estimated annually at the same time or more frequently if warranted. An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU, or group of assets on the same basis as evaluated by management, exceeds its estimated recoverable amount. A CGU is defined to be the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. The Company has identified the home health care segment and each individual LTC centre and retirement community as a CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Goodwill and indefinite life intangible assets are allocated to their respective CGUs for the purpose of impairment testing. Indefinite life intangible assets and corporate assets that do not generate separate cash flows and are utilized by more than one CGU, are allocated to each CGU for the purpose of impairment testing and are not tested for impairment separately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses on goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized (*note 3(m)*).

FINANCIAL ASSETS

A financial asset is any asset that consists of: cash; a contractual right to receive cash or another financial asset, or exchange financial assets or financial liabilities under potentially favourable conditions; an equity instrument of another entity; or certain contracts that will or may be settled in the Company's own equity instruments.

Financial assets are reviewed at each reporting date and are deemed to be impaired when objective evidence resulting from one or more events subsequent to the initial recognition of the asset indicates the estimated future cash flows of the asset has been negatively impacted. Impairment loss is measured based on an expected credit loss (ECL) impairment model (*note 3(m)*).

i) Employee Benefits

DEFINED BENEFIT PLANS

Defined benefit plans are post-employment plans with a defined obligation to employees in return for the services rendered during the term of their employment with the Company. The net obligation of these plans is calculated separately for each plan by estimating the present value of future benefit that employees have earned in return for their service in the current and prior periods. Past service costs are recognized during the period in which they are incurred, and the fair value of any plan assets are deducted. The discount rate used in deriving the present value is the yield at the reporting date on AA credit-rated corporate bonds that have maturity dates approximating the Company's obligations and are denominated in the same currency in which the benefits are expected to be paid.

The calculation of the future benefit of the plan is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the plan, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

All actuarial gains and losses arising from defined benefit plans are recognized in OCI during the period in which they are incurred.

DEFINED CONTRIBUTION PLANS

The Company has corporate specific and multi-employer defined benefit pension plans, as well as deferred compensation plans. Multi-employer defined benefit pension plans are accounted for as defined contribution plans as the liability per employer is not available. Deferred compensation plans are also accounted for as defined contribution plans. Defined contribution plans are post-employment plans where the costs are fixed and there are no legal or constructive obligations to pay further amounts. Obligations for such contributions are recognized as employee benefit expense in net earnings during the periods in which services are rendered by employees.

SHORT-TERM EMPLOYEE BENEFITS

The Company has vacation, paid sick leave and short-term disability plans along with other health, drug and welfare plans for its employees. These employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered.

j) Share-Based Compensation

CASH-SETTLED SHARE APPRECIATION RIGHTS PLAN

Prior to 2016, the Company awarded share appreciation rights (SARs) with a three-year vesting period, the last of which was settled in cash in 2018. The Company reported any liability on a pro rata basis at fair value at each reporting date, determined by using an option pricing model based on the remaining vesting term and the amount by which the "Fair Market Value" of a Common Share of Extendicare exceeded the grant price, plus "Accrued Distributions". "Fair Market Value" of a Common Share, on any particular date, meant the volume-weighted average trading price of the Common Share on the TSX for the 10 trading days immediately preceding such date. "Accrued Distributions" meant the product of

the aggregate amount of cash distributions per Common Share declared payable to holders of record during the term of the SAR and the probability of the award being in the money at the end of the vesting period. Changes in fair value were recognized in net earnings in the period during which they were incurred.

EQUITY-SETTLED LONG-TERM INCENTIVE PLANS

Awards for deferred share units (DSUs) and performance share units (PSUs) are a share-based component of executive and director compensation, which are accounted for based on the intended form of settlement. Under a long-term incentive plan (LTIP) (*note 14*), the Board has the discretion to settle the DSU and PSU awards in cash, market-purchased Common Shares, or Common Shares issued from treasury. Based on the Board's intention to settle the awards in Common Shares issued from treasury, the PSU and DSU awards are accounted for as equity-settled awards. Settlement of the DSUs and PSUs are net of any applicable taxes and other source deductions required to be withheld by the Company, which amounts are anticipated to approximate 50% of the fair value of the award on the redemption date. The compensation expense for these equity-settled awards is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. The fair value of each award is measured at the grant date. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. In addition, PSU and DSU participants are credited with dividend equivalents in the form of additional units when dividends are paid on Common Shares in the ordinary course of business.

k) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion and recognized as part of net finance costs. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognized. Provisions comprise estimated self-insured liabilities, decommissioning provisions and other legal claims and obligations.

SELF-INSURED LIABILITIES

Prior to the U.S. Sale Transaction, Extendicare self-insured certain risks related to general and professional liability. As a result of the U.S. Sale Transaction (*note 22*), the Company no longer self-insures, but retained the associated obligation relating to the self-insured liabilities. The accrual for self-insured liabilities includes the estimated costs of both reported claims and claims incurred but not yet reported. The provision for self-insured liabilities is based on estimates of loss based upon assumptions made by management supported by actuarial projections and the advice of external risk management and legal counsel. The accrual for self-insured liabilities is discounted based on the projected timing of future payment obligations.

DECOMMISSIONING PROVISIONS

Management has determined that future costs could be incurred for possible asbestos remediation of the Company's pre-1980 constructed centres. Although asbestos is currently not a health hazard in any of these centres, appropriate remediation procedures may be required to remove potential asbestos-containing materials, consisting primarily of floor and ceiling tiles, in connection with any major renovation or demolition.

The fair value of the decommissioning provision related to asbestos remediation is estimated by computing the present value of the estimated future costs of remediation based on estimated expected dates of remediation. The computation is based on a number of assumptions, which may vary in the future depending upon the availability of new information, changes in technology and in costs of remediation, and other factors.

INDEMNIFICATION PROVISIONS

Indemnification provisions include management's best estimate of amounts required to indemnify for obligations related to tax, a corporate integrity agreement (CIA), and other items, resulting from the U.S. Sale Transaction.

OTHER PROVISIONS

Other provisions include legal claims that meet the above definition of a provision, along with employee termination payments. Provisions are not recognized for future operating losses.

l) Fair Value Measurement

Extendicare measures certain financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the following fair value hierarchy:
Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety, categorization of which is re-assessed at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

m) Financial Instruments

FINANCIAL ASSETS AND LIABILITIES

Prior to January 1, 2018, Extendicare classified financial assets and liabilities according to their characteristics and the related management's intention for use on an ongoing basis. Financial assets and liabilities were classified into one of the following five classifications: held-to-maturity financial assets, loans and receivables, financial assets at fair value through profit and loss (FVTPL), assets held for sale (AFS) and financial liabilities that are designated as FVTPL and other financial liabilities.

Effective January 1, 2018, the Company adopted IFRS 9 "Financial Instruments" where financial assets are classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost. The classification depends on the Company's business model for managing its financial instruments and the characteristics of the contractual cash flows associated with the instruments. The new standard eliminates the previous categories for financial assets of held to maturity, loans and receivables and available for sale.

Financial assets and liabilities classified as measured at amortized cost are initially recognized at fair value (net of any transaction costs) and are subsequently measured at amortized cost using the effective interest method less allowance for credit losses for financial assets (*note 4*).

Financial assets classified as measured at FVOCI are initially recognized at fair value and transaction costs are recognized in net earnings. Subsequently, unrealized gains and losses are recognized in other comprehensive income. Upon derecognition, realized gains and losses are reclassified from other comprehensive income and are recognized in net earnings for debt instruments and remain in other comprehensive income for equity investments. Interest income, foreign exchange gains/losses and impairments from debt instruments as well as dividends from equity investments are recognized in net earnings.

Financial assets and liabilities classified as measured at FVTPL are initially recognized at fair value and transaction costs are recognized in net earnings, along with gains and losses arising from changes in fair value.

A financial asset is classified as amortized cost if it is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is classified as FVOCI if is not designated as at FVTPL, is held within a business model with the purpose of holding assets to collect contractual cash flows and selling prior to maturity; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets not classified as amortized cost or FVOCI, as described above, are measured at FVTPL, including derivative financial assets.

Financial liabilities are measured as FVTPL if they are classified as held for trading or are designated as such. Other non-derivative financial liabilities are classified as amortized cost. Derivative financial liabilities are classified as FVTPL.

The ECL impairment model applies to all financial assets except for investments in equity securities, and to contract assets, lease receivables, loan commitments and financial guarantee contracts.

Loss allowances are measured on either a 12-month ECL basis where ECLs represent possible default events within the 12 months after the reporting date, or a lifetime ECL basis where ECLs represents all possible default events over the expected life of the instrument.

The Company has elected to use the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime ECL. The other ECL models applied to other financial assets also require judgement, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset.

Impairment losses are recorded in operating expenses in the consolidated statement of earnings with the carrying amount of the financial asset reduced through the use of impairment allowance accounts.

Summary of Financial Instruments and Classification

Below is a classification summary of the Company’s financial instruments upon adoption of IFRS 9:

	Classification prior to January 1, 2018	Measurement prior to January 1, 2018	Classification and measurement under IFRS 9
Cash and short-term investments	Loans and receivables	Amortized cost	Amortized cost
Restricted cash	Loans and receivables	Amortized cost	Amortized cost
Amounts receivable and other assets	Loans and receivables	Amortized cost	Amortized cost
Investments held for self-insured liabilities	Available for sale	FVOCI	FVTPL
Interest rate swaps	FVTPL	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Amortized cost

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to manage risks from fluctuations in exchange rates and interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values in the consolidated financial statements.

On the date a derivative contract is entered into, it must be assessed whether to designate the derivative (or non-derivative) as either a hedge of the fair value of a recognized asset or liability (a “fair-value hedge”) or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a “cash-flow hedge”) or as a hedge of a net investment in a foreign operation. At the inception of any hedge and on an ongoing basis, we assess whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. We currently do not have any fair-value, cash-flow or net investment hedges.

n) Revenue

Extendicare recognizes revenue for the transfer of goods or services to customers at an amount that reflects the consideration expected to be received for those goods or services. The Company generates revenue primarily from the provision of services to residents, rental income, home health care services, and management and consulting services.

i. Long-term Care

Services provided to residents include the provision of accommodation and meals, assistance with activities of daily living and continuing care. Programs and services are offered to all residents and specialty programs are offered for those with behavioural needs. Revenue from our LTC segment is regulated by provincial authorities and provincial programs fund a substantial portion of these fees with a co-payment for accommodation being paid by the residents. Accommodation and services are delivered as a bundle and revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided. The frequency that funding is received depends on the jurisdiction in which the LTC centre operates and it varies between a monthly or more frequent basis; and payments from residents are typically due at the beginning of each month.

In some cases, Extendicare's funding is based on occupancy levels achieved or certain policy conditions being met such as spending or staffing hour requirements. In these cases, the Company estimates the amount of funding that it expects to be entitled to for the services provided.

ii. Home Health Care

Home health care services provided include complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate clients living at home. Revenue from the home health care segment is also regulated by provincial authorities. Revenue is derived from both government and private-pay clients. Performance obligations are satisfied as services are delivered and revenue is therefore recognized over time, typically as the services provided to the customer. Private-pay services provided are invoiced at the end of each month based on the services provided, and the billing frequency of government-funded services varies between monthly and bi-weekly depending on the jurisdiction in which we operate.

iii. Retirement Living

Retirement living revenue is primarily derived from private-pay residents. Residents are charged monthly fixed fees based on the type of accommodation, level of care and services chosen by the resident, and the location of the retirement community. These fixed fees are allocated to the lease and the service components. Payments are due at the beginning of each month.

Accommodation revenue is recognized on a straight-line basis over the lease term, beginning when a resident has the right to use the retirement community. Revenue allocated to the services is recognized over time, typically on a monthly basis, as this corresponds to the period in which services are provided. Extendicare may also provide additional services to residents on an as-requested basis, at rates established by the Company based upon market conditions. Revenue for such services is recognized as the services are provided to the residents.

iv. Other Services

Extendicare also offers management, consulting, group purchasing, accounting and administrative services to third parties. Rates are set by the contracts, and these contracts are typically accounted for as a single performance obligation because goods or services are delivered concurrently. Revenue is recognized over time, typically on a monthly basis, which reflects when the services are provided.

o) Finance Costs and Finance Income

Finance costs include: interest expense on long-term debt; accretion of the discount on provisions, decommissioning provisions and convertible debentures; losses on the change in fair value of financial assets and liabilities designated as FVTPL (refer to *note 3(m)*); and losses in foreign exchange on non-Canadian based financial assets.

Finance income includes interest income on funds invested, gains on the change in fair value of financial assets and liabilities designated as FVTPL, accretion on deferred consideration and gains/losses in foreign exchange on non-Canadian based financial assets.

p) Income Taxes

Extendicare and its subsidiaries are subject to income taxes as imposed by the jurisdictions in which they operate, in accordance with the relevant tax laws of such jurisdictions. The provision for income taxes for the period comprises current and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions in which we operate. Deferred income tax is calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

The income tax rates used to measure deferred tax assets and liabilities are those rates enacted or substantially enacted at the reporting date, and are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset; and the income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, for each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In assessing whether the deferred tax assets are realizable, management considers whether it is probable (which the Company has defined as “more likely than not”) that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Tax uncertainties are evaluated on the basis of whether it is more likely than not that a tax position will ultimately be sustained upon examination by the relevant taxing authorities. Tax uncertainties are measured using a probability adjusted or expected value model whereby amounts are recorded if there is any uncertainty about a filing position, determined by multiplying the amount of the exposure by the probability that the entity’s filing position will not be sustained. The assessment of tax uncertainties relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

q) Discontinued Operations

A discontinued operation is a component of the Company’s business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or earlier, if the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of earnings and cash flow information is re-presented as if the operation had been discontinued from the start of the comparative period.

4. NEW ACCOUNTING POLICIES ADOPTED

Effective January 1, 2018, Extendicare adopted the following new standards and amendments to standards issued by the IASB: IFRS 15 “Revenue from Contracts with Customers”, and IFRS 9 “Financial Instruments” (IFRS 9), both of which are discussed below.

Revenue Recognition

IFRS 15 “Revenue from Contracts with Customers” provides a single model and two approaches to recognizing revenue: at a point in time or over time. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The standard applies to contracts with customers, excluding contracts within the scope of the standard on leases.

Extendicare adopted IFRS 15 using the cumulative effect method, which does not require restatement of comparative information. Adoption of the standard did not result in material changes to the timing or measurement of revenue recognition, and therefore, there was no cumulative effect adjustment recorded to accumulated deficit on January 1, 2018. However, under the new standard, accommodation revenue recognized under IAS 17 “Leases” is disclosed separately from services revenue recognized under IFRS 15 (*note 29*).

The Company’s revised revenue recognition policy is detailed in *note 3(n)*.

Financial Instruments

IFRS 9 "Financial Instruments" (IFRS 9) addresses the recognition, classification and measurement (including impairment) of financial assets and financial liabilities. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement".

In addition, IFRS 9 replaces the current "incurred loss" impairment model with a new ECL model, which requires timely recognition of expected credit losses.

The standard largely retains the existing accounting requirements for financial liabilities. However, fair value changes attributable to changes in an entity's own credit risk are required to be presented in other comprehensive income for financial liabilities that are designated as FVTPL. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The Company adopted this standard retrospectively with no restatement of prior periods. There was no material impact on adoption of the standard with the exception of a reclassification of $4.3 million from opening accumulated other comprehensive income to opening accumulated deficit, as investments held for self-insured liabilities were classified as FVTPL under IFRS 9. These investments include equity securities as well as money market funds that do not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; therefore, they are classified as measured at FVTPL under IFRS 9 (*see note 3(m)*).

5. FUTURE CHANGES IN ACCOUNTING POLICIES

The following new standard and interpretation are effective for future annual periods, and have not been applied in preparing the financial results for the year ended December 31, 2018.

Leases

On January 13, 2016, the IASB published IFRS 16 "Leases". The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, using a single model, thereby eliminating the distinction between operating and finance leases. As a lessee, the Company will recognize new assets and liabilities for its operating leases. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied. The Company has assessed the impact of this new standard and its adoption is not expected to have a material impact on the consolidated financial statements. A retrospective adjustment to opening retained earnings is not expected. Based on the operating leases as at January 1, 2019, the Company will recognize a right-of-use asset and lease liability ranging between $7 million and $9 million, using a simplified approach where the asset and liability would be identical.

Income Taxes

On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The adoption of the IFRIC Interpretation 23 is not expected to have a material impact on the consolidated financial statements.

6. ACQUISITIONS

On April 11, 2018, the Company completed the acquisition of the Lynde Creek Retirement Community for $33.8 million, which included an adjustment for working capital. The acquired community, located in Whitby, Ontario, consists of Lynde Creek Manor, a retirement residence offering 93 independent and assisted living suites; Lynde Creek Village, a life lease seniors community of 113 townhomes; and 3.7 acres of adjacent land for expansion. This acquisition was funded by cash on hand, and is accounted for as a business combination.

The final purchase price allocation outlined below is based on management's best estimate of fair values.

	Manor *93 suites*	Village *113 townhomes*	Excess Land	Total
Net assets acquired:				
Property and equipment	29.2	–	2.0	31.2
Intangible assets	–	2.9	–	2.9
Trade payables and accrued liabilities	(0.3)	–	–	(0.3)
Total net assets acquired	28.9	2.9	2.0	33.8
Consideration:				
Consideration	29.2	2.9	2.0	34.1
Working capital adjustment	(0.3)	–	–	(0.3)
Cash paid	28.9	2.9	2.0	33.8

The allocation of property and equipment was based on the fair value considering the nature and age of these assets.

The fair value estimate of $2.9 million allocated to identifiable intangible assets acquired, primarily consisted of life lease contracts. The Company has estimated the fair value of life lease contracts based upon expected discounted cash flows generated from these assets; the estimated useful lives for these assets are between 10 to 15 years.

The acquired operations would have contributed revenue of $5.1 million and nominal net loss if the acquisition had taken place on January 1, 2018. For the eight and a half months of ownership ending December 31, 2018, the acquisition contributed revenue of $3.8 million and net loss of $0.1 million.

7. ACCOUNTS RECEIVABLE

	2018	2017
Trade receivables	**39,894**	33,466
Other receivables	**10,676**	9,025
Accounts receivable - net of allowance *(note 26(a))*	**50,570**	42,491

8. PROPERTY AND EQUIPMENT

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Cost or Deemed Cost						
January 1, 2017	48,575	518,972	63,631	2,395	29,336	662,909
Additions	185	3,228	3,654	108	34,634	41,809
Disposals	–	–	–	–	(236)	(236)
Write-off of fully-depreciated assets	(180)	(4,487)	(4,834)	(124)	–	(9,625)
Transfer from CIP	2,548	26,797	2,637	(42)	(31,940)	–
December 31, 2017	51,128	544,510	65,088	2,337	31,794	694,857
Additions	**58**	**7,579**	**5,628**	**32**	**35,376**	**48,673**
Acquisitions *(note 6)*	**4,401**	**26,309**	**490**	**–**	**–**	**31,200**
Write-off of fully-depreciated assets	**(70)**	**(7,828)**	**(8,966)**	**(442)**	**–**	**(17,306)**
Impairment loss *(note 19)*	**(1,123)**	**(14,566)**	**(469)**	**–**	**–**	**(16,158)**
Transfer from CIP	**3,886**	**31,157**	**1,276**	**–**	**(36,319)**	**–**
December 31, 2018	**58,280**	**587,161**	**63,047**	**1,927**	**30,851**	**741,266**

	Land & Land Improvements	Buildings	Furniture & Equipment	Leasehold Improvements	Construction in Progress (CIP)	Total
Accumulated Depreciation						
January 1, 2017	3,733	162,579	29,728	1,436	–	197,476
Additions	543	19,836	6,119	540	–	27,038
Write-off of fully-depreciated assets	(180)	(4,487)	(4,834)	(124)	–	(9,625)
December 31, 2017	4,096	177,928	31,013	1,852	–	214,889
Additions	**554**	**21,680**	**6,204**	**396**	**–**	**28,834**
Write-off of fully-depreciated assets	**(70)**	**(7,828)**	**(8,966)**	**(442)**	**–**	**(17,306)**
December 31, 2018	**4,580**	**191,780**	**28,251**	**1,806**	**–**	**226,417**
Carrying amounts						
At December 31, 2017	47,032	366,582	34,075	485	31,794	479,968
At December 31, 2018	**53,700**	**395,381**	**34,796**	**121**	**30,851**	**514,849**

The cost of assets included in property and equipment under finance leases was $81.0 million (2017 – $81.5 million) with accumulated depreciation of $32.2 million (2017 – $30.3 million) (*note 12*).

During 2018, the Company capitalized $1.5 million of borrowing costs related to development projects under construction at an average capitalization rate of 4.9% (2017 – $1.2 million at 5.3%).

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2018	2017
Goodwill		
Balance at beginning of year	**51,675**	51,675
Balance at end of year	**51,675**	51,675
Other Intangible Assets		
Gross carrying value at beginning of year	**56,455**	46,000
Additions	**3,292**	10,490
Acquisitions *(note 6)*	**2,925**	–
Disposal	**(484)**	–
Write-off of fully amortized assets	**(154)**	(35)
Gross carrying value at end of year	**62,034**	56,455
Accumulated amortization at beginning of year	**12,229**	7,905
Amortization	**6,434**	4,359
Write-off of fully amortized assets	**(154)**	(35)
Accumulated amortization at end of year	**18,509**	12,229
Net carrying value	**43,525**	44,226
Goodwill and other intangible assets	**95,200**	95,901

10. OTHER ASSETS

	2018	2017
Investments held for self-insured liabilities	**67,938**	86,296
Amounts receivable and other assets	**69,967**	74,625
Interest rate swaps	**2,556**	3,459
	140,461	164,380
less: current portion	**21,465**	20,634
	118,996	143,746

Investments Held for Self-insured Liabilities

After the sale of our U.S. business in 2015 (the "U.S. Sale Transaction") (*note 22*), as part of its continuing operations, Extendicare retained its wholly owned Bermuda-based captive insurance company, Laurier Indemnity Company, Ltd. (the

"Captive"), which, along with third-party insurers, insured Extendicare's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction.
Extendicare holds investments within the Captive for settlements of the self-insured liabilities that are subject to insurance regulatory requirements (*note 11*).

As at December 31, 2018, the investment portfolio comprises U.S. dollar-denominated cash of $2.2 million (2017 – $0.7 million), money market funds of $57.4 million (2017 – $74.4 million), and investment-grade corporate securities of $8.3 million (2017 – $11.2 million). Certain of these investments in the amount of $35.1 million (US$25.7 million) (2017 – $45.4 million or US$36.1 million), have been pledged as collateral for letters of credit issued by the banker of the Captive in favour of ceding companies. As at December 31, 2018, all investments were carried at fair value, with changes in fair value reflected in earnings. (2017 – unrealized changes in fair value were reflected in OCI (*note 4*)).

Amounts Receivable and Other Assets

Amounts receivable and other assets include discounted amounts receivable due from the government of Ontario with respect to construction funding subsidies for long-term care centres, totalling $53.3 million (2017 – $58.5 million) of which $5.5 million (2017 – $5.2 million) is current. These subsidies represent funding for a portion of long-term care centre construction costs over a 20-year or 25-year period. The weighted average remaining term of this funding is 15 years.

Also included in amounts receivable and other assets is a $2.0 million receivable as at December 31, 2018 (2017 – $2.8 million), resulting from the U.S. Sale Transaction (*note 22*), as well as prepaid expenses and deposits.

The Company uses the simplified approach and calculates impairment loss on accounts and notes receivable as lifetime ECL.

Interest Rate Swaps

The interest rate swaps include swap contracts relating to mortgages, totalling $84.8 million, to lock in the rates between 3.11% and 5.04% for the full term of the loans being five to ten years (*note 12*).

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 20)*. As at December 31, 2018, the interest rate swaps were valued as a net asset of $2.0 million, including a liability of $0.5 million (*notes 12 and 13*) (2017 – asset of $3.5 million).

11. PROVISIONS

	Accrual for Self-insured Liabilities	Indemnification Provisions	Decommissioning Provisions	Total
January 1, 2017	94,841	28,447	8,137	131,425
Provisions recorded (released)	(5,718)	4,885	699	(134)
Provisions used	(24,160)	(8,817)	–	(32,977)
Accretion	1,283	–	349	1,632
Effect of movements in exchange rates	(5,111)	(1,836)	–	(6,947)
December 31, 2017	61,135	22,679	9,185	92,999
Less: current portion	22,659	7,278	–	29,937
	38,476	15,401	9,185	63,062
January 1, 2018	**61,135**	**22,679**	**9,185**	**92,999**
Provisions recorded (released)	**(14,132)**	**(3,832)**	**–**	**(17,964)**
Provisions used	**(15,237)**	**(6,587)**	**(15)**	**(21,839)**
Accretion	**1,631**	**–**	**195**	**1,826**
Effect of movements in exchange rates	**3,741**	**1,453**	**–**	**5,194**
December 31, 2018	**37,138**	**13,713**	**9,365**	**60,216**
Less: current portion	**12,286**	**5,335**	**–**	**17,621**
	24,852	**8,378**	**9,365**	**42,595**

Accrual for Self-Insured Liabilities

The obligation to settle any U.S. self-insured general and professional liability claims relating to the period prior to the closing of the U.S. Sale Transaction, including claims incurred but yet to be reported, remains with Extendicare, which it intends to fund through the Captive. Consequently, the balance of the accrual for self-insured liabilities and the related investments held for self-insured liabilities (*note 10*) remain on the consolidated statement of financial position. However, any expense incurred or release of reserves for U.S. self-insured liabilities are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

The accrual for self-insured liabilities is based on management's best estimate of the ultimate cost to resolve general and professional liability claims. Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

As at December 31, 2018, the accrual for self-insured general and professional liabilities was $37.1 million (US$27.2 million) compared to $61.1 million (US$48.6 million) at the beginning of the year. The decline of $24.0 million represented claim payments of $15.2 million (US$11.8 million) (2017 – $24.2 million or US$18.6 million), the release of reserves of $13.0 million (US$9.9 million) (2017 – $5.7 million or US$4.4 million), and an adjustment totalling $1.1 million (US$0.9 million) for discounting resulting from a change in discount rate (2017 – nil), reflected as other expense (income) in discontinued operations (*note 22*), partially offset by foreign exchange of $3.7 million (2017 – $5.1 million), and accretion of $1.6 million (US$1.2 million) (2017 – $1.3 million or US$1.0 million).

Indemnification Provisions

As a result of the U.S. Sale Transaction (*note 22*), the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a corporate integrity agreement (the "CIA"), and other items. Any revisions to these estimates are reflected as part of other expense in discontinued operations (*note 22*). As at December 31, 2018, the remaining provisions totalled $13.7 million (US$10.1 million) (2017 – $22.7 million or US$18.0 million). Actual results can differ materially from the estimates made due to a number of factors including the assumptions used by management and other market forces.

Decommissioning Provisions

The decommissioning provisions relate to possible asbestos remediation of Extendicare's pre-1980 constructed centres. An estimated undiscounted cash flow amount of approximately $11 million was discounted using a rate of 1.98% over an estimated time to settle of 7 years. This represents management's best estimate and actual amounts may differ.

12. LONG-TERM DEBT

	Interest Rate	Year of Maturity	2018	2017
Convertible unsecured subordinated debentures	5.0%	2025	**119,775**	–
Convertible unsecured subordinated debentures	6.0%	2019	**–**	124,800
CMHC mortgages	2.93% - 7.7%	2020 - 2037	**114,083**	123,911
Non-CMHC mortgages	3.11% - 5.637%	2020 - 2038	**169,670**	172,844
Construction loans	variable	on demand	**52,866**	29,868
Finance lease obligations	2.28% - 7.19%	2022 - 2028	**80,992**	90,323
			537,386	541,746
Deferred financing costs			**(8,416)**	(5,678)
Total debt, net of deferred financing costs			**528,970**	536,068
Less: current portion			**74,626**	59,664
Long-term debt, net of deferred financing costs			**454,344**	476,404

Convertible Unsecured Subordinated Debentures

In 2012, Extendicare issued $126.5 million of aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2019, convertible at $11.25 per Common Share (the "2019 Debentures"), with interest payable semi-annually in March and September. These debentures were redeemable by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days. On March 26, 2018, the Company issued a notice of intention to redeem the 2019 Debentures.

In April 2018, the Company issued $126.5 million aggregate principal amount of 5.00% convertible unsecured subordinated debentures due April 30, 2025 (the "2025 Debentures"), with a conversion price of $12.25 per Common Share (the "Offering"). The initial offering for $110.0 million of the 2025 Debentures closed on April 17, 2018, and the exercise of the over-allotment option for $16.5 million debentures closed on April 25, 2018. The debt and equity components of the 2025 Debentures were bifurcated as the financial instrument is considered a compound instrument with $119.2 million classified as a liability and the residual $7.3 million classified as equity attributable to the conversion option. The liability portion of the 2025 Debentures is recorded at amortized cost. The fees and transaction costs allocated to the debt component are amortized over the term of the 2025 Debentures using the effective interest rate method and are recognized as part of net finance costs.

Interest on the 2025 Debentures is payable semi-annually in April and October. The 2025 Debentures may not be redeemed by the Company prior to April 30, 2021, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after May 1, 2021 but prior to April 30, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior, provided that the volume-weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On and after May 1, 2023, these debentures may be redeemed by the Company in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on a notice of not more than 60 days and not less than 30 days prior.

Upon the occurrence of a change of control, whereby more than 66.67% of the Common Shares are acquired by any person, or group of persons acting jointly, each holder of the 2025 Debentures may require the Company to purchase their debentures at 101% of the principal plus accrued and unpaid interest. If 90% or more of the debentureholders do so, the Company has the right, but not the obligation, to redeem all the remaining outstanding 2025 Debentures.

The net proceeds from the Offering of $120.9 million, together with cash on hand, was used by the Company to finance the redemption of its 2019 Debentures on April 30, 2018. The redemption price of the 2019 Debentures was equal to the sum of the outstanding aggregate principal amount of $126.5 million and all accrued and unpaid interest thereon for a total of $127.1 million. As a result of the early redemption of the 2019 Debentures, the unaccreted liability of $1.4 million was expensed (*note 19*), and the related equity portion of $5.6 million was classified as part of accumulated deficit.

CMHC Mortgages

The Company has subsidiaries have various mortgages insured through the Canada Mortgage and Housing Corporation (CMHC) program. The CMHC mortgages are secured by several Canadian financial institutions at rates ranging from 2.93% to 7.7% with maturity dates through to 2037.

During the 2017 first quarter, one of the mortgages in the amount of $5.8 million, originally scheduled to mature in October 2016, was renewed at 3.04% to mature in November 2026. In addition, two mortgages totalling $16.5 million, which matured in February 2017, were renewed under the existing CMHC certificate at a rate of 3.35% to mature in February 2032.

In August 2018, the Company renewed maturing mortgages of $8.3 million. These renewed mortgages bear an interest rate of 2.96% for a term of four years to August 2022.

Non-CMHC Mortgages

The Company has a number of conventional mortgages on certain long-term care centres, at rates ranging from 3.27% to 5.637%. Some of these mortgages have a requirement to maintain a minimum debt service coverage ratio. In May 2017, the Company secured a $30.0 million term loan with the Canadian Imperial Bank of Commerce (the "CIBC Term Loan") upon maturity of $3.6 million of existing mortgages on nine Alberta long-term care centres. The CIBC Term Loan bears an interest rate based on a variable 30-day banker's acceptance rate plus 1.8% for a term of five years to May 2022, with principal and interest payable in monthly installments based on a 20-year amortization. The maximum borrowing base under the CIBC Term Loan will be determined annually based upon the aggregate of the updated lending value established for each property. The Company entered into an interest rate swap contract to lock in the rate at 3.27% for the full term.

In September 2018, the Company secured financing of $10.5 million on a retirement community in Ontario. This financing has a 10-year term. In conjunction with securing this financing, the Company entered into an interest rate swap contract to

lock in the interest rate at 5.04% for the full term of this financing. Also, during the 2018 third quarter, the Company reduced the balances on mortgages of three communities by a total of $8.6 million.

All interest rate swap contracts are measured at fair value through profit or loss, and hedge accounting has not been applied. Changes in fair value are recorded in the statements of earnings (*note 20)*. As at December 31, 2018, the interest rate swaps were valued as an asset of $2.6 million, which is included as part of other assets (*note 10*), and a liability of $0.5 million, which is included as part of long-term liability *(note 13)*.

Construction Loans

Construction financings totalling $51.4 million for three retirement development projects in Simcoe, Bolton, and Uxbridge, were secured in 2016 and provide for additional letter of credit facilities of $500,000, $750,000, and $750,000, respectively, at a rate of 2.5% if utilized. In the 2017 fourth quarter, an additional $9.0 million of construction financing was secured for the Uxbridge expansion. Loan payments are interest-only based on a variable rate of 30-day banker's acceptance (BA) plus 2.5%, with no standby fee. The construction loans are repayable on demand and, in any event, are to be fully repaid by the earlier of achieving stabilized occupancy as defined by the agreements and specified dates between late 2019 and 2022.

Construction financing of $27.2 million was secured in the 2018 third quarter for a retirement community in Barrie with an additional letter of credit facility of $1.0 million. Loan payments are interest-only based on a variable rate of 30-day BA plus 2.25%, with no standby fee. The construction loan is repayable on demand and, in any event, is to be fully repaid by the earlier of September 2023 and three months following stabilized occupancy as defined by the agreement.

All these financings have been reflected as current. Permanent financing for each of the communities will be sought upon maturity of the construction financing.

As at December 31, 2018, an aggregate of $52.9 million was drawn on the construction loans, and letters of credit totalling $1.2 million were issued under credit facilities.

Finance Lease Obligations

The finance lease obligations outstanding at December 31, 2018 represent finance leases on long-term care centres and the present value of a subscription to customized cloud-based software to be used in the home health care operations. The Company operates nine Ontario long-term care centres, which were built between 2001 and 2003, under 25-year finance lease arrangements. The software balance will be accreted through interest expense, and amortized over the contract term of five years.

Finance lease obligations are payable as follows:

			2018			2017
	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments	Future Minimum Lease Payments	Interest	Present Value of Minimum Payments
Less than one year	**12,904**	**5,182**	**7,722**	14,256	5,741	8,515
Between one and five years	**51,648**	**15,095**	**36,553**	53,353	17,489	35,864
More than five years	**41,386**	**4,669**	**36,717**	53,488	7,544	45,944
	105,938	**24,946**	**80,992**	121,097	30,774	90,323

Credit Facilities

Extendicare has a demand credit facility in the amount of $47.3 million with the Royal Bank of Canada (the "RBC Credit Facility") that is secured by 13 Class C long-term care centres in Ontario and is guaranteed by certain of its subsidiaries of Extendicare. As at December 31, 2018, Extendicare had letters of credit totalling approximately $45.0 million issued under the RBC Credit Facility, of which $38.0 million secure our defined benefit pension plan obligations and the balance were issued in connection with obligations relating to recently acquired centres and those centres under development. The unutilized portion of the credit facility was $2.3 million as at December 31, 2018. The RBC Credit Facility has no financial covenants, but does contain normal and customary terms including annual re-appraisals of the centres that could limit the maximum amount available.

In the fourth quarter of 2017, the Company arranged for a demand credit facility in the amount of $65.0 million (the "ParaMed Credit Facility") that is secured by the assets of our home health care business, and it is available for general corporate purposes of the Company. The ParaMed Credit Facility has no financial covenants, but it does contain normal and customary terms. The entire amount of the credit facility was unutilized as at December 31, 2018.

Restricted Cash

In connection with certain financing, funds totalling $2.3 million as at December 31, 2018 (2017 – $2.3 million), included in restricted cash are designated for future capital expenditures.

Deferred Financing Costs

Deferred financing costs are deducted against long-term debt and are amortized using the effective interest rate method over the term of the debt. The net increase of $2.7 million in 2018 related primarily to the costs associated with the issuance of the 2025 Debentures, partially offset by the write-off of the unamortized finance costs of $1.1 million upon the early redemption of the 2019 Debentures (*note 19*) and the amortization of finance costs.

Below is a summary of the deferred financing costs:

	2018	**2017**
Convertible unsecured subordinated debentures	**4,774**	1,387
CMHC mortgages	**2,017**	2,465
Non-CMHC mortgages	**1,419**	1,595
Finance lease obligations	**206**	231
Total deferred financing costs	**8,416**	5,678
Less: current portion	**1,404**	1,463
	7,012	4,215

Principal Repayments

Principal repayments on long-term debt, exclusive of finance lease obligations, are as follows:

Year	**Amount**
2019	68,308
2020	60,077
2021	15,108
2022	58,643
2023	45,656
2024 and beyond	215,327
	463,119

Interest Rates

The weighted average interest rate of all long-term debt at December 31, 2018, was approximately 4.9% (2017 – 5.0%). At December 31, 2018, 90.2% of the long-term debt, including interest rate swaps, was at fixed rates (2017 – 94.5%).

13. OTHER LONG-TERM LIABILITIES

	2018	**2017**
Accrued pension plan obligation (*note 25*)	**33,486**	34,072
Interest rate swaps (*note 12*)	**523**	–
Other	**1,068**	950
	35,077	35,022

14. SHARE-BASED COMPENSATION

The Company's share-based compensation, which includes SARs, DSUs and PSUs, was an expense of $0.2 million for 2018 (2017 – expense of $2.0 million), and includes the reversal of $1.2 million in connection with the forfeiture of PSUs upon the departure of the former CEO in October 2018 (*note 28*).

The carrying amounts of the Company's share-based compensation arrangements are recorded in the consolidated statements of financial position as follows:

	2018	2017
Accounts payable and accrued liabilities – SARs	**–**	1,146
Contributed surplus – DSUs	**1,914**	1,220
Contributed surplus – PSUs	**792**	1,217

Cash-settled Share Appreciation Rights Plan

Prior to 2016, the Company awarded SARs to eligible employees and directors of Extendicare. No further awards will be granted under the SARs plan, and as of December 31, 2018, all SARs have vested or been forfeited.

A summary of the Company's SARs activity is as follows:

	2018		2017	
	Share Appreciation Rights	Weighted Average Vesting Price	Share Appreciation Rights	Weighted Average Vesting Price
Outstanding, beginning of year	**372,000**	**$7.14**	597,000	$7.05
Vested	**(354,000)**	**7.11**	(216,000)	6.88
Forfeited	**(18,000)**	**7.69**	(9,000)	7.69
Outstanding, end of year	**–**		372,000	$7.14
Average remaining contractual life	**–**		0.2 years	

The SARs were fair valued using the Black-Scholes model based on the following inputs:

	2017
Share price	$9.11
Volatility	14.00%
Risk-free interest rate	1.00% – 1.21%
Strike price	$6.55 – $7.69
Expected remaining life	0.1 years – 0.4 years

Equity-settled Long-term Incentive Plan

The Board implemented a LTIP in 2016 to provide for a share-based component of executive and director compensation designed to encourage a greater alignment of the interests of our executives and directors with our shareholders, in the form of PSUs for our employees and DSUs for our non-employee directors.

PSUs and DSUs granted under the LTIP do not carry any voting rights. DSUs vest immediately upon grant and PSUs vest three years from the date of grant. During 2018, the Company settled 14,886 DSUs and 5,032 PSUs, resulting in the issuance from treasury of 19,918 Common Shares. An aggregate of 4,387,974 Common Shares are reserved and available for issuance pursuant to the LTIP.

A summary of the Company's DSU and PSU activity is as follows:

	Deferred Share Units		Performance Share Units	
	2018	**2017**	**2018**	**2017**
Units outstanding, beginning of period	**134,369**	61,124	**342,944**	173,550
Granted	**109,744**	72,742	**192,116**	173,329
Reinvested dividend equivalents	**10,498**	4,137	**26,007**	10,616
Forfeited	**–**	–	**(367,126)**	(14,551)
Settled	**(14,886)**	(3,634)	**(5,032)**	–
Units outstanding, end of period	**239,725**	134,369	**188,909**	342,944
Weighted average fair value of units granted during the period at grant date	**$7.36**	$9.68	**$9.33**	$11.63

The grant date values of PSUs awarded were based on the fair values of one award with two equal components being the adjusted funds from operations (AFFO) and total shareholder return (TSR). The fair values of the AFFO component were measured using the previous day's closing trading price of the Common Shares. The fair values of the TSR component were measured using the Monte Carlo simulation method.

A summary of PSUs granted and the assumptions used to determine the grant date values are as follows:

	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017	
Grant date	**March 15, 2018**	March 15, 2017	May 25, 2017
Vesting date	**March 15, 2021**	March 15, 2020	May 25, 2020
PSUs granted	**192,116**	160,689	12,640
Fair value of AFFO component	**$4.36**	$5.24	$5.11
Fair value of TSR component	**4.97**	6.42	6.12
Grant date fair value	**$9.33**	$11.66	$11.23
Expected volatility of Extendicare's Common Shares	**23.66%**	23.09%	24.90%
Expected volatility of the Index	**12.20%**	13.41%	13.60%
Risk-free rate	**1.84%**	0.92%	0.75%
Dividend yield	**nil**	nil	nil

15. SHARE CAPITAL

	2018		2017	
	Shares	Amount	*Shares*	Amount
Balance at beginning of year	***88,523,290***	**490,881**	*88,684,485*	489,656
Transactions with shareholders				
DRIP	***650,361***	**4,928**	*535,025*	5,081
Purchase of shares for cancellation	***(703,585)***	**(3,903)**	*(696,220)*	(3,856)
Share-based compensation	***19,918***	**158**	*–*	–
Balance at end of year	***88,489,984***	**492,064**	*88,523,290*	490,881

Authorized Capital

Extendicare is authorized to issue an unlimited number of Common Shares and that number of preferred shares of Extendicare (the "Preferred Shares"), issuable in series, equal to 50% of the number of Common Shares that are issued and outstanding at the time of the issuance of any series of Preferred Shares, for consideration and on terms and conditions that the Board may determine without the approval of shareholders.

COMMON SHARES

Each Common Share is transferable and represents an equal and undivided beneficial interest in the assets of the Company. Each Common Share entitles the holder to one vote at all meetings of shareholders of the Company. Shareholders are entitled to receive dividends from the Company if, as and when declared by the Board. During 2018 and 2017, the Company declared cash dividends of $0.48 per share.

PREFERRED SHARES

Preferred Shares may at any time and from time to time be issued in one or more series. There are currently no Preferred Shares issued.

Distribution Reinvestment Plan

The Company has a Distribution Reinvestment Plan (DRIP) pursuant to which shareholders who are residents in Canada may elect to reinvest their cash distributions in additional Common Shares on the date of the distribution, at a price equal to 97% of the volume-weighted average trading price of the Common Shares on the TSX for the five trading days immediately preceding the corresponding date of distribution. During 2018, the Company issued 0.7 million Common Shares at a value of $4.9 million in connection with the DRIP (2017 – $0.5 million Common Shares at a value of $5.1 million).

Normal Course Issuer Bid

During 2018, under a normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of $8.89 per share, for a total cost of $6.3 million. During 2017, under a previous normal course issuer bid, the Company acquired and cancelled 696,220 Common Shares at a weighted average price of $9.27 per share, for a total cost of $6.5 million.

In January, 2019, Extendicare received the approval of the TSX to renew its normal course issuer bid (the "Bid") to purchase for cancellation up to 8,830,000 Common Shares (approximately 10% of the public float) through the facilities of the TSX, and on alternative Canadian trading platforms. The Bid commenced on January 15, 2019, and provides Extendicare with flexibility to purchase Common Shares for cancellation until January 14, 2020, or on such earlier date as the Bid is complete. Subject to the TSX's block purchase exception, on any trading day, purchases under the Bid will not exceed 54,852 Common Shares. The price that Extendicare will pay for any Common Shares purchased under the Bid will be the prevailing market price at the time of purchase and any Common Shares purchased will be cancelled.

16. EQUITY RESERVES

Equity reserves are included in AOCI and comprise fair value, and translation reserves, as follows:

	Unrealized Gains/Losses on AFS Securities	Realized Gains/Losses on AFS Securities Transferred to Net Earnings	Total Fair Value Reserve	Translation Reserve	Total Equity Reserves
Balance, January 1, 2017	13,494	(7,103)	6,391	3,775	10,166
Recognized during the year	4,955	(7,012)	(2,057)	(3,097)	(5,154)
Balance, December 31, 2017	18,449	(14,115)	4,334	678	5,012
Adoption of new standard on financial instruments *(note 4)*	**(18,449)**	**14,115**	**(4,334)**	**–**	**(4,334)**
Recognized during the year	**–**	**–**	**–**	**1,841**	**1,841**
Balance, December 31, 2018	**–**	**–**	**–**	**2,519**	**2,519**

Fair Value Reserve

Prior to 2018, the fair value reserve comprised the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized, at which time, the cumulative change in fair value was recognized in net earnings. Upon the adoption of IFRS 9 in 2018, the fair value reserve balances accumulated as at January 1, 2018, was reclassified to opening accumulated deficit, and any change in the fair value of these securities going forward is recognized in net earnings in the period as incurred (*note 4*).

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the investments and accrual for self-insured liabilities that are held in a foreign operation. When funds are repatriated, the cumulative change in foreign currency differences are recognized in net earnings (*notes 10 and 11*).

17. REVENUE

	2018	2017
Long-term care	**632,533**	616,887
Retirement living	**33,412**	20,673
Home health care	**431,343**	435,718
Management, consulting and other	**22,719**	24,053
Total revenue	**1,120,007**	1,097,331

Funding received by Extendicare for its long-term care centres and home health care services is regulated by provincial authorities. Revenue from provincial programs represented approximately 70% of Extendicare's long-term care revenue (2017 – 70%), and approximately 98% of Extendicare's home health care revenue for both 2018 and 2017.

Retirement living includes accommodation revenue of approximately $13.5 million and services revenue of approximately $19.9 million for 2018. Service revenue represents a combination of monthly service fees paid by the residents, including proceeds retained by Extendicare upon the sale of homes in the life lease community.

18. EXPENSES BY NATURE

	2018	2017
Employee wages and benefits	**868,089**	851,318
Food, drugs, supplies and other variable costs	**52,181**	48,566
Property based and other costs	**98,757**	93,092
Total operating expenses and administrative costs	**1,019,027**	992,976
Lease costs	**6,742**	6,758
Total expenses	**1,025,769**	999,734

19. OTHER EXPENSE

	2018	2017
Acquisition costs	**1,042**	–
Loss on early redemption of convertible debt	**2,511**	–
Impairment	**16,158**	–
Other	**484**	–
Other expense	**20,195**	–

Impairment

In the 2018 fourth quarter, the Company recorded a pre-tax impairment charge of $16.2 million ($11.8 million after tax), in respect of certain of its retirement communities ($15.9 million), and LTC centres ($0.3 million).

The impairment charge for the retirement living operations relates to the write down of the carrying value of the property and equipment of three Saskatchewan retirement communities that were acquired in late 2015 and early 2016; two of which were newly opened at that time and are still in lease up. These communities have not performed as expected, primarily due to competitive market conditions, impacting rates, occupancy and labour and benefit costs.

The determination of recoverable amounts can be significantly impacted by estimates related to current market valuations, current and future economic conditions in the geographical markets of each CGU, and management's strategic plans within each of its markets. Estimates and assumptions used in the determination of the impairment loss for both the retirement communities and LTC centres were based upon information that was known at the time, along with the future outlook. The Company completes the assessment of the impairment amount of each of these properties (each being a CGU), by comparing the recoverable amount (in this case the value in use) of each CGU, determined using the direct capitalization method, to their carrying values. The direct capitalization method divides the estimated stabilized net operating income, after adjusting for management fee and capital maintenance, by appropriate market capitalization rates, ranging from 5.5% and 7.25%, derived from a combination of third-party information and industry trends. The fair value is a Level 3 valuation (*note 26(b)*).

Other

In April 2018, the Company acquired the Lynde Creek Retirement Community (*note 6*), and incurred transaction costs of $1.0 million, most of which were incurred during the 2018 second quarter.

Upon the early redemption of the 2019 Debentures on April 30, 2018 (*note 12*), the unaccreted liability of $1.4 million and the associated unamortized finance costs of $1.1 million were expensed.

20. FOREIGN EXCHANGE AND INVESTMENT GAIN AND FAIR VALUE ADJUSTMENTS

Gain on Foreign Exchange and Investments

Gains on foreign exchange and investments was $1.2 million for 2018 (2017 – $0.9 million). These include: gain (loss) related to deferred consideration and other balances in connection with the U.S. Sale Transaction that are denominated in U.S. dollars (*note 22*); gain (loss) on fair value adjustments on investments held for self-insured liabilities (*notes 4 and 10*); and a foreign exchange gain recognized upon repatriation of funds from the Captive.

Fair Value Adjustments

Fair value adjustments relate to interest rate swap contracts that lock in the interest rates for certain mortgages. The fair value of these contracts as at December 31, 2018, resulted in a loss of $1.0 million 2018 (2017 – gain of $2.5 million) (*notes 10*).

21. EARNINGS PER SHARE

Basic earnings (loss) per share (EPS) is calculated by dividing the net earnings (loss) for the period by the weighted average number of shares outstanding during the period, including vested DSUs awarded that have not settled. Diluted EPS is calculated by adjusting the net earnings (loss) and the weighted average number of shares outstanding for the effects of all dilutive instruments. The Company's potentially dilutive instruments include the convertible debentures and equity-settled compensation arrangements. The number of shares included with respect to the PSUs is computed using the treasury stock method. The convertible debentures and equity-settled compensation arrangements would be antidilutive and as such, these are not included in the calculation of diluted EPS.

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computation.

	2018	**2017**
Numerator for Basic and Diluted Earnings (Loss) per Share		
Earnings from continuing operations		
Net earnings for basic earnings per share	**31,738**	2,132
Less: earnings (loss) from discontinued operations, net of tax	**23,654**	(29,580)
Earnings from continuing operations for basic earnings per share	**8,084**	31,712
Add: after-tax interest on convertible debt	**6,681**	7,342
Earnings from continuing operations for diluted earnings per share	**14,765**	39,054
Net earnings		
Net earnings for basic earnings per share	**31,738**	2,132
Add: after-tax interest on convertible debt	**6,681**	7,342
Net earnings for diluted earnings per share	**38,419**	9,474
Denominator for Basic and Diluted Earnings per Share		
Actual weighted average number of shares	**88,233,092**	88,720,572
Vested equity-settled compensation	**170,363**	84,786
Weighted average number of shares for basic earnings per share	**88,403,455**	88,805,358
Shares issued if all convertible debt was converted	**10,326,531**	11,244,444
Dilutive effect of equity-settled compensation	**22,844**	38,121
Total for diluted earnings per share	**98,752,830**	100,087,923
Basic and Diluted Earnings (Loss) per Share *(in dollars)*		
Earnings from continuing operations	**0.09**	0.36
Gain (loss) from discontinued operations	**0.27**	(0.34)
Net earnings	**0.36**	0.02

22. DISCONTINUED OPERATIONS

	2018	2017
Earnings (Loss) from Discontinued Operations		
Earnings (loss) before income taxes	**17,755**	(36,576)
Income tax recovery	**(5,899)**	(6,996)
Earnings (loss) from discontinued operations	**23,654**	(29,580)

	2018	2017
Cash Flows from Discontinued Operations		
Net cash from operating activities	**(15,237)**	(24,160)
Net cash from investing activities	**15,237**	24,160
Net cash from financing activities	**–**	–
Effect on cash flows	**–**	–

In connection with the U.S. Sale Transaction, the Company agreed to indemnify certain obligations of the U.S. operations related to tax, a CIA, and other items. In connection with these items, as at December 31, 2018, the Company had remaining provisions totalling $13.7 million (US$10.1 million) (*note 11*), and a receivable of $2.0 million (US$1.4 million) (*note 10*) (December 31, 2017 – provisions of $22.7 million and receivable of $2.8 million). Favourable changes to indemnification provisions totalled $3.8 million for 2018. The change in 2017 included a $5.1 million charge related to the increase of estimated costs in connection with the CIA. In addition, the proceeds from the U.S. Sale Transaction included an element of deferred consideration; the remaining balance of $37.5 million was written off in 2017.

Earnings (loss) from discontinued operations in 2018 also includes the release of accrual for self-insured liabilities, including adjustments to discount rate applied, totalling $14.1 million (US$10.8 million) (*note 11*). The release of accrual for self-insured liabilities in 2017 was $5.7 million (US$4.4 million).

In October 2014, EHSI completed and executed a settlement agreement with the U.S. Department of Justice (DOJ), the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services and multiple states. As is standard practice in settlements of OIG and DOJ investigations, EHSI entered into the CIA, with the OIG for a five-year period effective October 3, 2014. Under the terms of the U.S. Sale Transaction, Extendicare has agreed to share in the costs incurred in order to implement and comply with the requirements of the CIA. Though the actual costs for the Purchaser to comply with the CIA are difficult to estimate, the Company has included a provision for such costs in its provision for indemnification obligations (*note 11*).

In December 2018, the Company sold one of the remaining U.S. legal entities and realized a capital loss for U.S. tax purposes of approximately US$20 million available to carryback against a 2015 capital gain, resulting in a tax recovery of $9.7 million (US$7.1 million).

23. INCOME TAXES

Tax Recognized in Net Earnings

	2018	2017
Current Tax Expense (Recovery)		
Current year	**8,921**	10,191
Items related to discontinued operations *(note 22)*	**(11,729)**	(1,230)
Utilization of losses	**(924)**	(87)
Other adjustments	**132**	45
	(3,600)	8,919
Deferred Tax Expense (Recovery)		
Origination and reversal of temporary difference	**(4,406)**	1,079
Items related to discontinued operations *(note 22)*	**5,830**	(5,766)
Utilization of losses	**629**	–
Other adjustments	**(117)**	(376)
	1,936	(5,063)
Total tax expense	**(1,664)**	3,856
Tax expense from continuing operations	**4,235**	10,852
Tax recovery from discontinued operations	**(5,899)**	(6,996)
	(1,664)	3,856

Tax Recognized in Other Comprehensive Income

	2018			2017		
	Before Tax	Tax Recovery	Net of Tax	Before Tax	Tax Recovery	Net of Tax
Foreign currency translation difference for	**1,841**	**–**	**1,841**	(3,097)	–	(3,097)
Available-for-sale financial assets	**–**	**–**	**–**	(2,057)	–	(2,057)
Defined benefit plan actuarial gains	**(507)**	**134**	**(373)**	(423)	112	(311)
	1,334	**134**	**1,468**	(5,577)	112	(5,465)

Investments held for self-insured liabilities, included in other assets, were previously classified as available for sale and measured at FVOCI, with unrealized changes in fair value recognized in AOCI. On adoption of IFRS 9 effective January 1, 2018, these investments are classified and measured as FVTPL with changes in fair value recognized in net earnings (*note 4*).

Effective Tax Rate

The major factors that caused variations from the expected combined Canadian federal and provincial statutory income tax rates were as follows**:**

	2018	2017
Earnings from continuing operations before income taxes	**12,319**	42,564
Income taxes at statutory rates of 26.5%	**3,265**	11,279
Income tax effect relating to the following items:		
Tax rate variance of foreign subsidiaries	**610**	(1,173)
Non-deductible items	**517**	1,033
Non-taxable income	**(107)**	(17)
Prior year adjustment	**42**	(331)
Other items	**(92)**	61
	4,235	10,852

Summary of Operating and Capital Loss Carryforwards

Extendicare's Canadian corporate subsidiaries have recorded a tax benefit of $5.7 million for available net operating loss carryforwards as at December 31, 2018 (2017 – $7.2 million), which expire in the years 2035 through 2038, and capital loss carryforwards of $42.1 million (2017 – $16.5 million) which have not been tax benefited and are available indefinitely to apply against future capital gains.

Deferred tax assets recognized as at December 31, 2018, were $9.7 million (2017 – $13.9 million). Net deferred tax liabilities increased in 2018 to $1.6 million from $0.4 million at December 31, 2017.

Recognized Deferred Tax Assets and Liabilities

Net deferred tax liabilities comprise the following:

	2018			2017		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property and equipment	**6,410**	**20,339**	**13,929**	981	21,031	20,050
Intangible assets	**73**	**5,933**	**5,860**	73	5,505	5,432
Other assets	**–**	**683**	**683**	–	963	963
Deferred financing costs	**67**	**1,379**	**1,312**	1,833	1,553	(280)
Financial assets at fair value	**–**	**545**	**545**	–	908	908
Self-insurance reserves	**254**	**–**	**(254)**	276	–	(276)
Indemnification provisions	**2,357**	**–**	**(2,357)**	7,939	–	(7,939)
Employee benefit accruals	**9,599**	**–**	**(9,599)**	10,013	–	(10,013)
Operating loss carryforwards	**1,519**	**–**	**(1,519)**	1,922	–	(1,922)
Deferred revenue	**3,348**	**48**	**(3,300)**	4,380	42	(4,338)
Decommissioning provision	**2,482**	**–**	**(2,482)**	2,248	–	(2,248)
Other	**1,335**	**115**	**(1,220)**	248	336	88
Set-off of tax	**(17,699)**	**(17,699)**	**–**	(16,022)	(16,022)	–
Deferred tax liabilities, net	**9,745**	**11,343**	**1,598**	13,891	14,316	425

Certain comparative information in the table above have been restated to conform to the current year presentation.

Deferred income taxes are provided for temporary differences between the carrying values of assets and liabilities and their respective tax values as well as available tax loss carryforwards. Management believes it is more likely than not that Extendicare's corporate subsidiaries will realize the benefits of these deductible differences.

The significant components of deferred income tax assets and liabilities and the movement in these balances during the year were as follows:

	Balance January 1, 2018	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income/Other**	**Recognized in Discontinued Operations**	**Change in Foreign Exchange**	**Balance December 31, 2018**
Property and equipment	**20,050**	**(6,121)**	**–**	**–**	**–**	**13,929**
Other assets	**963**	**(217)**	**–**	**–**	**(63)**	**683**
Deferred financing costs	**(280)**	**1,678**	**(86)**	**–**	**–**	**1,312**
Financial assets at fair value	**908**	**(363)**	**–**	**–**	**–**	**545**
Self-insurance reserves	**(276)**	**22**	**–**	**–**	**–**	**(254)**
Indemnification provisions	**(7,939)**	**232**	**–**	**5,830**	**(480)**	**(2,357)**
Intangible assets	**5,432**	**428**	**–**	**–**	**–**	**5,860**
Employee benefit accruals	**(10,013)**	**548**	**(134)**	**–**	**–**	**(9,599)**
Operating loss carryforwards	**(1,922)**	**403**	**–**	**–**	**–**	**(1,519)**
Deferred revenue	**(4,338)**	**1,038**	**–**	**–**	**–**	**(3,300)**
Decommissioning provision	**(2,248)**	**(234)**	**–**	**–**	**–**	**(2,482)**
Other	**88**	**(1,308)**	**–**	**–**	**–**	**(1,220)**
Deferred tax liabilities, net	**425**	**(3,894)**	**(220)**	**5,830**	**(543)**	**1,598**

Certain comparative information in the table above have been restated to conform to the current year presentation.

	Balance January 1, 2017	Recognized in Net Earnings	Recognized in Other Comprehensive Income/Other	Recognized in Discontinued Operations	Change in Foreign Exchange	Balance December 31, 2017
Property and equipment	21,773	(1,723)	–	–	–	20,050
Other assets	8,271	95	–	(7,120)	(283)	963
Deferred financing costs	1,840	(2,120)	–	–	–	(280)
Accounts receivable reserves	520	(520)	–	–	–	–
Financial assets at fair value	264	644	–	–	–	908
Self-insurance reserves	(256)	(20)	–	–	–	(276)
Indemnification provisions	(9,957)	–	–	1,354	664	(7,939)
Intangible assets	1,815	3,617	–	–	–	5,432
Employee benefit accruals	(10,405)	504	(112)	–	–	(10,013)
Operating loss carryforwards	(1,964)	42	–	–	–	(1,922)
Deferred revenue	(4,437)	99	–	–	–	(4,338)
Decommissioning provision	(2,157)	(91)	–	–	–	(2,248)
Other	(88)	176	–	–	–	88
Deferred tax liabilities, net	5,219	703	(112)	(5,766)	381	425

Certain comparative information in the table above have been restated to conform to the current year presentation.

24. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

At December 31, 2018, the Company was committed under non-cancellable leases requiring future minimum rentals as follows:

	Operating Leases
2019	**3,507**
2020	**1,665**
2021	**1,389**
2022	**1,014**
2023	**296**
2024 and beyond	**3**
Total minimum payments	**7,874**

Property and Equipment Commitments

Extendicare has outstanding commitments of $16.0 million at December 31, 2018, in connection with private-pay retirement communities under development in Ontario, which will be substantially financed with a combination of construction financing and cash on hand. These are expected to be incurred over the next year.

Legal Proceedings and Regulatory Actions

Extendicare and its consolidated subsidiaries are defendants in various actions and proceedings that are brought against them from time to time in connection with their operations.

As previously disclosed, in April 2018, the Company was served with a statement of claim alleging negligence by the Company in the operation of its long-term care centres and its provision of care to residents and seeking $150 million in damages. The claim sought an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). By order of the Ontario Superior Court of Justice, a request from the plaintiff for discontinuance of the class proceeding was approved on October 25, 2018. Following the discontinuance, the plaintiff who commenced the class proceeding still has the option to pursue a claim on her own behalf while others may also do so separately on their own behalf. The Company intends to defend itself against any and all such individual claims and does not believe the outcome on any or all such claims would have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

On September 19, 2018, the Company was served with a statement of claim that seeks an order certifying the claim as a class action pursuant to the *Class Proceedings Act* (Ontario). The claim alleges that the Company failed to properly apply

certain required medical equipment sterilization protocols at one or more of its home health care clinics and seeks $20 million in damages. The Company does not believe that the lawsuit or the damages sought have merit. The Company intends to vigorously defend itself against the claim and does not believe the outcome will have a material adverse impact on its business, results of operations or financial condition and in any event believes that any potential liability would be resolved within the limits of its insurance coverage.

The provision of health care services is subject to complex government regulations. Every effort is made by the Company to prevent deficiencies in the quality of patient care through quality assurance strategies and to remedy any such deficiencies cited by government inspections within any applicable prescribed time period. Extendicare accrues for costs that may result from investigations (or any possible related litigation) to the extent that an outflow of funds is probable and a reliable estimate of the amount of the associated costs can be made.

25. EMPLOYEE BENEFITS

Retirement compensation arrangements are maintained for certain employee groups as described below.

Defined Benefit Plans

Extendicare has pension arrangements for certain of its executives, which include a registered defined benefit pension plan, as well as a supplementary plan that provide pension benefits in excess of statutory limits. Both of these plans have been closed to new entrants for several years. The plans are exposed to various risks, including longevity risk, currency risk, interest rate risk and market risks.

The different types of defined benefit plans of the Company are listed below.

	Funded Defined Benefit Plan		Unfunded Supplementary Defined Benefit Plan		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Fair value of plan assets	**5,066**	5,443	**–**	–	**5,066**	5,443
Present value of obligations	**7,666**	7,913	**33,523**	34,168	**41,189**	42,081
Deficit	**(2,600)**	(2,470)	**(33,523)**	(34,168)	**(36,123)**	(36,638)

FUNDING

As required by law, the registered defined benefit pension plan benefits are funded through a trust, and the Company is responsible for meeting the statutory obligations for funding this plan. The funding requirement for past service is determined based on separate actuarial valuations for funding purposes, which are completed every three years. The next actuarial review will be performed effective October 1, 2018, for completion in early 2019.

The supplementary plan is unfunded and pension benefits are secured through a letter of credit that is renewed annually. We do not set aside assets for this plan and the benefit payments are funded from our cash from operations.

DEFINED BENEFIT OBLIGATIONS

	2018	**2017**
Present Value of Defined Benefit Obligations		
Accrued benefit obligations		
Balance at beginning of year	**42,081**	42,430
Current service cost	**104**	225
Benefits paid	**(2,680)**	(2,603)
Interest costs	**1,330**	1,447
Actuarial losses	**354**	582
Balance at end of year	**41,189**	42,081
Plan assets		
Fair value at beginning of year	**5,443**	5,416
Employer contributions	**88**	83
Actual return on plan assets	**(241)**	160
Interest income on plan assets	**172**	184
Benefits paid	**(396)**	(400)
Fair value at end of year	**5,066**	5,443
Defined benefit obligations	**36,123**	36,638

The expected contribution to the supplementary plan for the coming year is approximately $2.2 million.

	2018	**2017**
Current accrued liabilities	**2,637**	2,566
Other long-term liabilities *(note 13)*	**33,486**	34,072
Accrued benefit liability at end of year	**36,123**	36,638

EFFECT OF CHANGES TO DEFINED BENEFIT OBLIGATIONS

	2018	**2017**
Expense Recognized in Net Earnings		
Annual benefit plan expense		
Current service cost	**104**	225
Interest costs	**1,158**	1,263
Plan benefit expense recognized in the year - included in operating expenses and administrative costs	**1,262**	1,488
Actuarial Losses Recognized in Other Comprehensive Income		
Amount accumulated in accumulated deficit at January 1	**(9,863)**	(9,552)
Actuarial loss arising from changes in liability experience and assumption changes	**(266)**	(583)
Return on assets	**(241)**	160
Income tax recovery on actuarial losses	**134**	112
Amount recognized in accumulated deficit at December 31	**(10,236)**	(9,863)

PLAN ASSETS

	2018	**2017**
Equities	**42%**	45%
Fixed income securities	**38%**	37%
Real estate / commercial mortgage	**20%**	18%
	100%	100%

ACTUARIAL ASSUMPTIONS

	2018	2017
Discount rate for year-end accrued obligation	**3.50%**	3.25%
Discount rate for period expense	**3.25%**	3.50%
Rate of compensation increase	**2.0%**	2.0%
Income Tax Act limit increase	**3.0%**	3.0%
Average remaining service years of active employees	**2**	2

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Extendicare determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and those that have terms to maturity approximating the terms of the related pension liability.

Changes to the following actuarial assumptions, while holding the other assumptions constant, would have affected the defined benefit obligation and related expense for 2018 by the amounts shown below.

	Increase (Decrease) in Benefit Obligation	Increase (Decrease) in Net Earnings
Discount rate		
1% increase	(3,829)	(166)
1% decrease	4,534	221
Rate of compensation increase		
1% increase	31	(2)
1% decrease	(31)	2
Income Tax Act limit increase		
1% increase	–	–
1% decrease	–	–
Mortality rate		
10% increase	(946)	35
10% decrease	1,039	(39)

Defined Contribution Plans

Canada maintains registered savings and defined contribution plans and matches up to 120% of the employees' contributions according to seniority, subject to a maximum based on the salary of the plan participants. Contributions expensed by Canada in 2018 and 2017 were $16.7 million and $16.5 million, respectively.

26. MANAGEMENT OF RISKS AND FINANCIAL INSTRUMENTS

(a) Management of Risks

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting its contractual obligations. We manage our liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements. We ensure that there are sufficient funds for declared and payable distributions and any other future commitments at any point in time. In addition, since there is a risk that current borrowings and long-term debt may not be refinanced or may not be refinanced on as favourable terms or with interest rates as favourable as those of the existing debt, we attempt to appropriately structure the timing of contractual long-term debt renewal obligations and exposures. In April 2018, the Company successfully refinanced the 2019 Debentures by issuing a new series of debentures which mature in 2025 (*note 12*).

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2018	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1-2 Years	2-5 Years	More than 5 Years
Convertible debentures	**119,775**	**166,558**	6,325	6,325	18,975	134,933
CMHC mortgages	**114,083**	**140,639**	14,935	37,596	50,060	38,048
Non-CMHC mortgages	**169,670**	**227,155**	12,521	33,439	92,069	89,126
Construction loans	**52,866**	**54,735**	54,735	–	–	–
Finance lease obligations	**80,992**	**105,938**	12,904	13,720	37,928	41,386
Accounts payable and accrued liabilities	**133,654**	**133,654**	133,654	–	–	–
Income taxes payable	**1,073**	**1,073**	1,073	–	–	–
Operating lease obligations	**–**	**7,874**	3,507	1,665	2,699	3
	672,113	**837,626**	239,654	92,745	201,731	303,496

The gross outflows presented above represent the contractual undiscounted cash flows.

In addition to cash generated from its operations, the Company has available undrawn credit facilities totalling $69.1 million (*note 12*).

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge its obligation. The nature and maximum exposure to credit risk as at December 31 was:

	Carrying Amount	
	2018	**2017**
Cash and short-term investments	**65,893**	128,156
Restricted cash	**2,290**	2,300
Accounts receivables, net of allowance *(note 7)*	**50,570**	42,491
Investments held for self-insured liabilities *(notes 10 and 22)*	**67,938**	86,296
Amounts receivable and other assets *(note 10)*	**53,341**	58,541
	240,032	317,784

Cash and Short-term Investments

The majority of our cash and short-term investments are held with highly rated financial institutions in Canada.

Restricted Cash

The restricted cash is cash held mainly on account of lender capital reserves with no credit risk.

Accounts Receivables, Net of Allowance

Extendicare periodically evaluates the adequacy of its provision for receivable impairment by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established percentages for provision for receivable impairment that are based upon historical collection trends for each payor type and age of the receivables. Accounts receivable that are specifically estimated to be uncollectible, based upon the above process, are fully reserved for in the provision for receivable impairment until they are written off or collected.

Receivables from government agencies represent the only concentrated group of accounts receivable for Extendicare. The Company has receivables primarily from provincial government agencies. Management does not believe there is any credit risk associated with these government agencies other than possible funding delays. Accounts receivable other than from government agencies consist of private individuals that are subject to different economic conditions, none of which represents any concentrated credit risk to the Company.

The maximum exposure to credit risk for accounts receivable at the reporting date is the carrying value of each class of receivable, denominated in the following currencies.

	2018			2017		
	Carrying Amount			Carrying Amount		
	U.S. Dollar	Canadian Dollar	Total	U.S. Dollar	Canadian Dollar	Total
Trade receivables	**–**	**39,894**	**39,894**	–	33,466	33,466
Other receivables	**–**	**10,676**	**10,676**	1,544	7,481	9,025
	–	**50,570**	**50,570**	1,544	40,947	42,491

As at December 31, 2018, receivables from government agencies represented approximately 85% of the total receivables (2017 – 91%). Management does not believe that there is significant credit risk associated with these government agencies other than possible funding delays. Management continuously monitors reports from trade associations or notes from provincial or federal agencies that announce possible delays that are rare to occur and usually associated with changes of fiscal intermediaries or changes in information technology or forms.

Receivables, other than those from government agencies, consist of receivables from various payors and do not represent any concentrated credit risks to the Company. There is no significant exposure to any single party.

As at December 31, 2018, the Company had trade receivables of $39.9 million (2017 – $33.5 million). All the receivables were fully performing and collectible in the amounts outlined above. The Company estimates the ECL based on historical experience of collectability and aging of accounts by payor type and on an individual basis. Receivables that are considered uncollectible are written off as a charge to net earnings, and any subsequent recoveries of previously written off amounts are recognized in net earnings when they occur.

The aging analysis of these trade receivables is as follows:

	2018	2017
Current	**28,889**	22,800
Between 30 and 90 days	**10,122**	6,846
Between 90 and 365 days	**1,767**	1,779
Over 365 days	**712**	3,638
Less: provision for receivable impairment	**(1,596)**	(1,597)
	39,894	33,466

Movements on the Company’s provision for receivable impairment are as follows:

	2018	2017
At January 1	**1,597**	1,818
Increase in provision for receivable impairment	**2,910**	1,710
Receivables written off as uncollectible	**(2,911)**	(1,931)
At December 31	**1,596**	**1,597**

Any change in provision for receivables impairment has been included in operating expenses in net earnings. In general, amounts charged to the provision for impairment of trade receivables are written off when there is no expectation of recovering additional cash.

Investments Held for Self-insured Liabilities

The Company’s investments held for self-insured liabilities include investments in corporate or government fixed-rate bonds with ratings above a rating of AAA- along with U.S. treasuries. The majority of these investments are investment grade. Cash held for self-insured liabilities are with high-quality financial institutions. The Company limits the amount of exposure to any one institution.

Notes, Mortgages and Amounts Receivable

Included in notes, mortgages and amounts receivable were $53.3 million (2017 – $58.5 million) of discounted amounts receivable due from government agencies. These represent amounts funded by the Ontario government for a portion of LTC centre construction costs over a 20-year or 25-year period *(note 10)*. The Company does not believe there is any credit exposure for these amounts due from government agencies.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Cross-border transactions are subject to exchange rate fluctuations that may result in realized gains or losses as and when payments are made.

As a result of the U.S. Sale Transaction, our exposure to foreign currency risk has been significantly reduced. The following table outlines the net asset exposure to both the U.S. continuing operations and other items retained from the U.S. Sale Transaction as at December 31, 2018 (*note 22*).

(in thousands of US$)	**2018**
Assets	
Current assets	**16,644**
Investments held for self-insured liabilities	**49,818**
Liabilities	
Current liabilities	**10,262**
Indemnification provisions	**10,053**
Non-current liabilities	**18,276**
Net asset exposure	**27,871**

Net Earnings Sensitivity Analysis

Prior to the U.S. Sale Transaction, the majority of the Company's operations were conducted in the United States. As at December 31, 2018, U.S. operations accounted for less than 1% of its revenue from continuing operations (2017 – less than 1%).

Every one cent strengthening of the Canadian dollar against the U.S. dollar in 2018 would favourably impact net earnings by $0.1 million and OCI by $0.2 million. This analysis assumes that all other variables, in particular the interest rates, remain constant.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

To mitigate interest rate risk, the Company's long-term care debt portfolio includes fixed-rate debt and variable-rate debt with interest rate swaps in place. At December 31, 2018, construction loans of $52.9 million are variable-rate debt, which do not have interest rate swaps in place. The Company's credit facility, and future borrowings, may be at variable rates which would expose the Company to the risk of interest rate volatility (*note 12*).

Although the majority of the Company's long-term debt is effectively at fixed rates, there can be no assurance that as debt matures, renewal rates will not significantly impact future income and cash flow. The Company does not account for any fixed-rate liabilities at FVTPL; consequently, changes in interest rates have no impact on our fixed-rate debt and therefore, would not impact net earnings.

Below is the interest rate profile of our interest-bearing financial instruments, which reflects the impact of the interest rate swaps (*notes 10*):

	Carrying Amount	
	2018	**2017**
Fixed-rate instruments:		
Long-term debt [(1)]	**484,520**	511,878
Total liability in fixed-rate instruments	**484,520**	511,878
Variable-rate instruments:		
Long-term debt [(1)]	**52,866**	29,868
	52,866	29,868

[(1)] Includes current portion and excludes netting of deferred financing costs.

Fair Value Sensitivity Analysis for Variable-rate Instruments

All long-term debt with variable rates are classified as other financial liabilities, which are measured at amortized cost using the effective interest method of amortization; therefore, changes in interest rates would not affect OCI or net earnings with respect to variable-rate debt. As at December 31, 2018, long-term debt with variable rates represented 9.8% of total debt. The value of the interest rate swaps is subject to fluctuations in interest rates, changes in fair value of these swaps are recognized in net earnings (*notes 10 and 20*).

Cash Flow Sensitivity Analysis for Variable-rate Instruments

An increase of 100 basis points in interest rates would have decreased net earnings by $0.4 million and a decrease of 100 basis points in interest rates would have increased net earnings by $0.4 million. This analysis assumes that all other variables, in particular foreign currency rates, remains constant, and excludes variable interest rate debt that is locked in through interest rate swaps.

(b) Fair values of Financial Instruments

As at December 31, 2018	**Amortized Cost**	**Fair Value through Profit and Loss**	**Total Carrying Amount**	**Fair Value**
Financial assets:				
Cash and short-term investments	**65,893**	**–**	**65,893**	**65,907**
Restricted cash	**2,290**	**–**	**2,290**	**2,290**
Invested assets [(1)]	**442**	**–**	**442**	**442**
Accounts receivable	**50,570**	**–**	**50,570**	**50,570**
Interest rate swaps	**–**	**2,556**	**2,556**	**2,556**
Amounts receivable and other assets [(2) (3)]	**53,341**	**–**	**53,341**	**55,142**
Investments held for self-insured liabilities	**2,242**	**65,696**	**67,938**	**67,938**
	174,778	**68,252**	**243,030**	**244,845**
Financial liabilities:				
Accounts payable	**6,239**	**–**	**6,239**	**6,239**
Interest rate swaps	**–**	**523**	**523**	**523**
Long-term debt excluding convertible debentures [(3) (4)]	**417,611**	**–**	**417,611**	**444,092**
Convertible debentures	**119,775**	**–**	**119,775**	**125,551**
	543,625	**523**	**544,148**	**576,405**

As at December 31, 2017	**Loans and Receivables**	**Available for Sale**	**Fair Value through Profit and Loss**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
Financial assets:						
Cash and short-term investments	128,156	–	–	–	128,156	128,166
Restricted cash	2,300	–	–	–	2,300	2,300
Invested assets [(1)]	442	–	–	–	442	442
Accounts receivable	42,491	–	–	–	42,491	42,491
Interest rate swaps	–	–	3,459	–	3,459	3,459
Amounts receivable and other assets [(2) (3)]	58,541	–	–	–	58,541	62,300
Investments held for self-insured liabilities	–	86,296	–	–	86,296	86,296
	231,930	86,296	3,459	–	321,685	325,454
Financial liabilities:						
Accounts payable	–	–	–	4,272	4,272	4,272
Long-term debt excluding convertible debentures [(3) (4)]	–	–	–	416,946	416,946	432,259
Convertible debentures	–	–	–	124,800	124,800	129,650
	–	–	–	546,018	546,018	566,181

[(1)] Included in other assets.
[(2)] Includes primarily amounts receivable from government.
[(3)] Includes current portion.
[(4)] Excludes netting of deferred financing costs.

BASIS FOR DETERMINING FAIR VALUES

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the previous table.

Fair values for investments designated as FVTPL (2017 – available for sale) are based on quoted market prices.

Items designated as loans and receivables include cash, accounts receivable as well as notes, mortgages and amounts receivable. Accounts receivable, including other long-term receivables, are recorded at amortized cost. The carrying values of accounts receivable approximate fair values due to their short-term maturities, with the exception of certain settlement receivables from third-party payors that are anticipated to be collected beyond one year. The fair values of these settlement receivables are estimated based on discounted cash flows at current borrowing rates. Notes, mortgages and amounts receivable primarily consist of notes and amounts receivable from government agencies, and other third-party notes. The fair values for these instruments are based on the amount of future cash flows associated with each instrument, discounted using current applicable rates for similar instruments of comparable maturity and credit quality. The fair values of convertible debentures are based on the closing price of the publicly traded convertible debentures on each reporting date, and the fair values of mortgages and other debt are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

FAIR VALUE HIERARCHY

We use a fair value hierarchy to categorize the type of valuation techniques from which fair values are derived: Level 1 – use of quoted market prices; Level 2 – internal models using observable market information as inputs; Level 3 – internal models without observable market information as inputs.

The Company uses interest rate swap contracts to effectively fix the interest rate on certain mortgages. As hedge accounting is not applied, the contracts are carried at fair value and reported as assets or liabilities depending on the fair value on the reporting date, with the change in fair value recognized in net earnings. The fair value of the interest rate swap contracts are calculated through discounting future expected cash flows using the BA-based swap curve. Since the BA-based swap curve is an observable input, these financial instruments are considered Level 2.

The fair values of financial instruments presented above, where carrying value is not a reasonable approximation of fair value, are as follows:

	Level 1	Level 2	Level 3	Total
As at December 31, 2018:				
Investments held for self-insured liabilities	**67,938**	**–**	**–**	**67,938**
Amounts receivable and other assets	**–**	**55,142**	**–**	**55,142**
Interest rate swaps	**–**	**2,556**	**–**	**2,556**
Long-term debt excluding convertible debentures	**–**	**444,092**	**–**	**444,092**
Convertible debentures	**125,551**	**–**	**–**	**125,551**
As at December 31, 2017:				
Investments held for self-insured liabilities	86,296	–	–	86,296
Amounts receivable and other assets	–	62,300	–	62,300
Interest rate swaps	–	3,459	–	3,459
Long-term debt excluding convertible debentures	–	432,259	–	432,259
Convertible debentures	129,650	–	–	129,650

27. CAPITAL MANAGEMENT

The completion of the U.S. Sale Transaction facilitated the repositioning of Extendicare as a pure-play Canadian senior care and services company. The Company's objective is to further expand and grow our Canadian operations including growing our long-term care revenue through redevelopment, and exploring opportunities in the private-pay retirement space.

The Company accesses the capital markets periodically to fund acquisitions, growth capital expenditures and certain other expenditures. We monitor the capital markets to assess the conditions for raising capital and the cost of such capital relative to the return on any acquisitions or growth capital projects. Funds raised in the capital markets that are not deployed in acquisitions or growth projects are held in high-quality investments with surplus cash held in secure institutions. We manage our cash position and prepare monthly cash flow projections over the remaining and future fiscal periods, and we continuously monitor the level, nature and maturity dates of debt and level of leverage and interest coverage ratios to ensure

our compliance with debt covenants. We provide information to the Board on a regular basis in order to carefully evaluate any significant cash flow decisions.

Normal Course Issuer Bid

On January 10, 2019, Extendicare received the approval of the TSX for the Bid (*note 15*). During 2018, under a similar normal course issuer bid that commenced on January 15, 2018 and ended on January 14, 2019, the Company acquired and cancelled 703,585 Common Shares at an average price of $8.89 per share, for a total cost of $6.3 million.

Capital Structure

The Company defines its capital structure to include long-term debt, net of cash and short-term investments, and share capital.

	2018	**2017**
Current portion of long-term debt [1]	**74,626**	59,664
Long-term debt [1]	**454,344**	476,404
Total debt	**528,970**	536,068
Less: cash and short-term investments	**(65,893)**	(128,156)
Net debt	**463,077**	407,912
Share capital	**492,064**	490,881
	955,141	898,793

(1) Net of financing costs.

Dividends

The declaration and payment of future distributions is at the discretion of our Board and will be dependent upon a number of factors including results of operations, requirements for capital expenditures and working capital, future financial prospects of Extendicare, debt covenants and obligations, and any other factors deemed relevant by the Board. If our Board determines that it would be in Extendicare's best interests, it may reduce, for any period, the amount and frequency of dividends to be distributed to holders of Common Shares.

Financial Covenants

Extendicare is subject to external requirements for certain of its loans on debt service coverage. Management and the Board monitor these covenant ratios on a monthly and quarterly basis, respectively. The Company was in compliance with all these covenants as at December 31, 2018.

28. RELATED PARTY TRANSACTIONS

a) Transactions with Key Management Personnel

As previously announced, Extendicare's former President and Chief Executive Officer, Tim Lukenda stepped down from his position on October 22, 2018. In connection with his separation agreement, Mr. Lukenda was entitled to receive a cash payment in the amount of $2.9 million, and was required to forfeit, for no consideration, all of the PSUs credited to his account under the Company's LTIP. The Company reflected a charge in the 2018 third quarter for the cash payment of $2.9 million, partly offset by the reversal of $1.2 million in connection with the forfeiture of the PSUs, reflected below as part of short-term benefits (2017 – $2.0 million).

During Mr. Lukenda's employment with Extendicare, the Company provided management services to a long-term care centre and group purchasing services to a retirement centre owned by Mr. Lukenda and members of his family through a company in which Mr. Lukenda had an approximate 7.1% direct and indirect ownership interest. Mr. Lukenda's employment contract provided a mechanism and process that effectively removed him from the decision-making process in situations where a conflict of interest may have arisen on any matter between the two companies.

b) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the Company during the years ended December 31, 2018 and 2017, was as follows:

	2018	**2017**
Short-term benefits	**3,318**	4,555
Post-employment benefits	**2,917**	137
Share-based compensation	**(106)**	1,773
	6,129	6,465

29. SEGMENTED INFORMATION

The Company reports the following segments within its Canadian operations: i) long-term care; ii) retirement living; iii) home health care; iv) management, consulting and group purchasing as "other Canadian operations"; and v) the Canadian corporate functions and any intersegment eliminations as "corporate Canada". The continuing U.S. operations consist of the Captive.

The long-term care segment represents the 58 long-term care centres that the Company owns and operates in Canada. The retirement living segment includes seven acquired retirement communities, and two communities that were newly constructed and opened in the fourth quarters of 2016 and 2017. The retirement communities provide accommodation and services to private-pay residents at rates set by Extendicare based on the services provided and market conditions. Through our wholly owned subsidiary ParaMed Inc. (ParaMed), ParaMed's home health care operations provide complex nursing care, occupational, physical and speech therapy, and assistance with daily activities to accommodate those living at home.

The Company's other Canadian operations are composed of its management, consulting and group purchasing operations. Through our Extendicare Assist division, we provide management and consulting services to third-party owners; and through our SGP Purchasing Partner Network division, we offer cost-effective purchasing contracts to other senior care providers for food, capital equipment, furnishings, cleaning and nursing supplies, and office products.

The Company continues to group its former and remaining U.S. operations as one segment. The Captive's expense incurred for self-insured liabilities related to the Company's U.S. general and professional liability risks up to the date of the U.S. Sale Transaction as well as the disposed U.S. businesses are presented as discontinued operations; while the Captive's costs to administer and manage the settlement of the remaining claims are reported as continuing operations within the U.S. segment.

								2018
(in thousands of Canadian dollars)	**Long-term Care**	**Retirement Living**	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
CONTINUING OPERATIONS								
Revenue								
Long-term care	**632,533**	**–**	**–**	**–**	**–**	**632,533**	**–**	**632,533**
Retirement living	**–**	**33,412**	**–**	**–**	**–**	**33,412**	**–**	**33,412**
Home health care	**–**	**–**	**431,343**	**–**	**–**	**431,343**	**–**	**431,343**
Management, consulting and other	**–**	**–**	**–**	**22,291**	**23**	**22,314**	**405**	**22,719**
Total revenue	**632,533**	**33,412**	**431,343**	**22,291**	**23**	**1,119,602**	**405**	**1,120,007**
Operating expenses	**559,489**	**24,430**	**393,354**	**8,750**	**–**	**986,023**	**–**	**986,023**
Administrative costs	**–**	**–**	**–**	**–**	**31,828**	**31,828**	**1,176**	**33,004**
Lease costs	**–**	**–**	**4,877**	**–**	**1,865**	**6,742**	**–**	**6,742**
Total expenses	**559,489**	**24,430**	**398,231**	**8,750**	**33,693**	**1,024,593**	**1,176**	**1,025,769**
Earnings (loss) before depreciation, amortization, and other expense	**73,044**	**8,982**	**33,112**	**13,541**	**(33,670)**	**95,009**	**(771)**	**94,238**
Depreciation and amortization	**–**	**–**	**–**	**–**	**35,270**	**35,270**	**–**	**35,270**
Other expense	**–**	**–**	**–**	**–**	**20,195**	**20,195**	**–**	**20,195**
Earnings (loss) before net finance costs and income taxes	**73,044**	**8,982**	**33,112**	**13,541**	**(89,135)**	**39,544**	**(771)**	**38,773**
Interest expense	**–**	**–**	**–**	**–**	**27,584**	**27,584**	**–**	**27,584**
Accretion	**–**	**–**	**–**	**–**	**1,250**	**1,250**	**1,628**	**2,878**
Gain on foreign exchange and investments	**–**	**–**	**–**	**–**	**(1,105)**	**(1,105)**	**(98)**	**(1,203)**
Interest revenue	**–**	**–**	**–**	**–**	**(3,761)**	**(3,761)**	**–**	**(3,761)**
Fair value adjustments	**–**	**–**	**–**	**–**	**956**	**956**	**–**	**956**
Net finance costs	**–**	**–**	**–**	**–**	**24,924**	**24,924**	**1,530**	**26,454**
Earnings (loss) before income taxes	**73,044**	**8,982**	**33,112**	**13,541**	**(114,059)**	**14,620**	**(2,301)**	**12,319**
Income tax expense								
Current	**–**	**–**	**–**	**–**	**8,129**	**8,129**	**–**	**8,129**
Deferred	**–**	**–**	**–**	**–**	**(3,894)**	**(3,894)**	**–**	**(3,894)**
Total income tax expense	**–**	**–**	**–**	**–**	**4,235**	**4,235**	**–**	**4,235**
Earnings (loss) from continuing operations	**73,044**	**8,982**	**33,112**	**13,541**	**(118,294)**	**10,385**	**(2,301)**	**8,084**
DISCONTINUED OPERATIONS								
Earnings from discontinued operations, net of income taxes	**–**	**–**	**–**	**–**	**–**	**–**	**23,654**	**23,654**
Net earnings (loss)	**73,044**	**8,982**	**33,112**	**13,541**	**(118,294)**	**10,385**	**21,353**	**31,738**

								2017
(in thousands of Canadian dollars)	Long-term Care	Retirement Living	**Home Health Care**	**Other Canadian Operations**	**Corporate Canada**	**Total Canada**	**Total U.S.**	**Total**
CONTINUING OPERATIONS								
Revenue								
Long-term care	616,887	–	–	–	–	616,887	–	616,887
Retirement living	–	20,673	–	–	–	20,673	–	20,673
Home health care	–	–	435,718	–	–	435,718	–	435,718
Management, consulting and other	–	–	–	18,789	15	18,804	5,249	24,053
Total revenue	616,887	20,673	435,718	18,789	15	1,092,082	5,249	1,097,331
Operating expenses	542,965	18,290	391,867	8,387	–	961,509	–	961,509
Administrative costs	–	–	–	–	30,333	30,333	1,134	31,467
Lease costs	–	–	4,778	–	1,980	6,758	–	6,758
Total expenses	542,965	18,290	396,645	8,387	32,313	998,600	1,134	999,734
Earnings (loss) before depreciation and amortization	73,922	2,383	39,073	10,402	(32,298)	93,482	4,115	97,597
Depreciation and amortization	–	–	–	–	31,379	31,379	–	31,379
Earnings (loss) before net finance costs and income taxes	73,922	2,383	39,073	10,402	(63,677)	62,103	4,115	66,218
Interest expense	–	–	–	–	28,082	28,082	–	28,082
Accretion	–	–	–	–	1,529	1,529	1,283	2,812
Loss (gain) on foreign exchange and investments	–	–	–	–	666	666	(1,530)	(864)
Interest revenue	–	–	–	–	(3,695)	(3,695)	(207)	(3,902)
Fair value adjustments	–	–	–	–	(2,474)	(2,474)	–	(2,474)
Net finance costs (income)	–	–	–	–	24,108	24,108	(454)	23,654
Earnings (loss) before income taxes	73,922	2,383	39,073	10,402	(87,785)	37,995	4,569	42,564
Income tax expense								
Current	–	–	–	–	10,149	10,149	–	10,149
Deferred	–	–	–	–	603	603	100	703
Total income tax expense	–	–	–	–	10,752	10,752	100	10,852
Earnings (loss) from continuing operations	73,922	2,383	39,073	10,402	(98,537)	27,243	4,469	31,712
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income taxes	–	–	–	–	–	–	(29,580)	(29,580)
Net earnings (loss)	73,922	2,383	39,073	10,402	(98,537)	27,243	(25,111)	2,132

30. SIGNIFICANT SUBSIDIARIES

The following is a list of the significant subsidiaries as at December 31, 2018, all of which are 100% directly or indirectly owned by the Company.

	Jurisdiction of Incorporation
Extendicare (Canada) Inc.	Canada
ParaMed Inc.	Canada
Harvest Retirement Community Inc.	Canada
Stonebridge Crossing Retirement Community Inc.	Canada
Empire Crossing Retirement Community Inc.	Canada
Yorkton Crossing Retirement Community Inc.	Canada
West Park Crossing Retirement Community Inc.	Canada
9623523 Canada Inc.	Canada
Douglas Crossing Retirement Community Inc.	Canada
Lynde Creek Manor Retirement Community Inc.	Canada
9994165 Canada Inc.	Canada
Riverbend Crossing Retirement Community Inc.	Canada
Cedar Crossing Retirement Community Inc.	Canada
Laurier Indemnity Company, Ltd.	Bermuda